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1983
Montana Economic
Development
Project
Montana Economic
Development
Project, final
summary

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MONTANA ECONOMIC DEVELOPMENT PROJECT

Final Summary

January 1983

This document is primarily a compilation of reports prepared jointly by the Montana Economic Development Project and McKinsey & Company. Without the full original reports and the accompanying discussion, it is incomplete as a record of the Project findings.

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MONTANA ECONOMIC DEVELOPMENT PROJECT

CO-CHAIRMEN

GOVERNOR TED SCHWINDEN
IAN DAVIDSON,
Chairman, D. A. Davidson & Company

TO: Steering Committee Members

FROM: Ian Davidson

January 1983

Last spring, when we began the Montana Economic Development Project (MEDP), there were over 40,000 Montanans unemployed. Since January 1980, we have lost over 5,000 primary jobs in Montana, or roughly 5 percent of our primary job base. The State Department of Labor recently announced that unemployment checks have become the largest single payroll in Montana. The situation is projected to get worse.

Montana's office of the Small Business Administration estimates that their clients' bankruptcies are averaging 15 per month, up from 3 per month just 2 years ago. This does not include individual bankruptcies and agricultural foreclosures, which have also escalated. Two primary industries in Montana, copper and timber, may be in permanent decline. The energy boom predicted in the 70's has not materialized. Coal production has leveled off at less than 35 million tons per year. Industrial applications for water have disappeared.

The message throughout the MEDP is that to improve Montana's economic performance we must move forward on several fronts simultaneously, including: expanding the primary industry base; helping businesses to market their products; promoting the state for tourism and new business investment; commercializing university R&D; and improving all transportation modes.

Economic development on a broad scale has become a necessity. The most recent Montana Poll indicates that: "an overwhelming majority of Montanans endorse state efforts to expand economic growth and think it is worthwhile that state government and the business community work together on economic issues." The economic problems which confront us are too big and too complex to be solved without the support of business, government, labor and the public. The recommendations which we approved, while not addressing all of Montana's economic problems, offer the beginning of a balanced and diverse economic development program and a new era of cooperation in Montana.

1970

1971

1972

1973

1974

1975

1976

1977

1978

1979

1980

This document is intended as a reference for the findings and recommendations of the Montana Economic Development Project (MEDP). It is divided into seven parts, as indicated by the following tabs:

1. Project objectives, organization and activities
2. Organizations contacted
3. Montana economic performance and outlook
4. Montana's economic "balance sheet"
5. Attitudes towards economic development
6. Key industry groupings
7. Recommendations

1. *Восстановление*

2. *Кад. период. События*

3. *Углубле. анализ историч. процессов*

4. *Историч. модели "обществ. эволюц."*

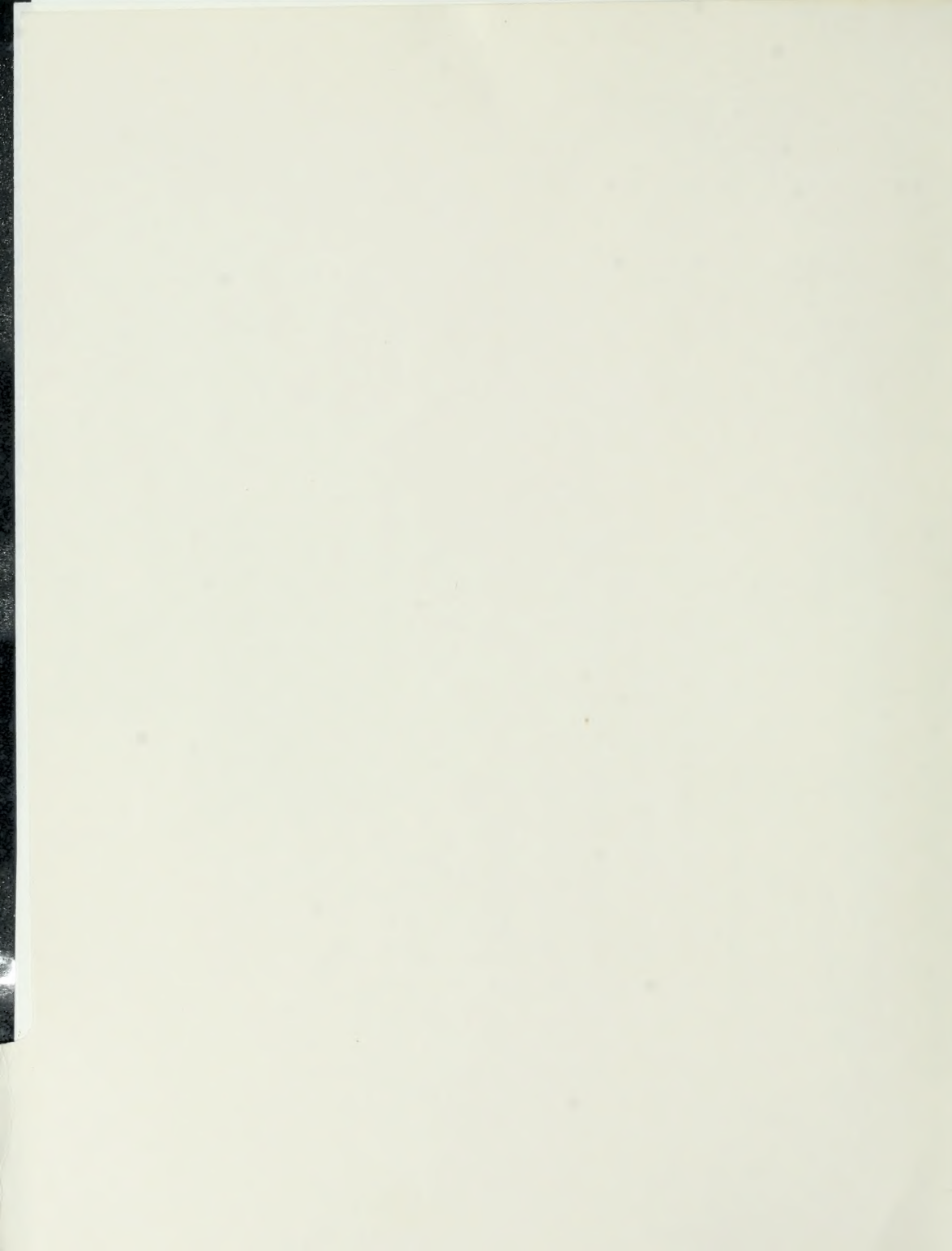
5. *Историч. модели безвременности и циклическ.*

6. *Современные проблемы*

7. *Историч. процессы: характеристика и оценка*

или *Современн. мир*

История России: Проблемы, факты, тенденции. II. Проблемы историч. культуры в историч. ракурсе. Для семинаров и курсовых работ. 100 стр. 1998 г. ISBN 5-02-010000-0



Memorandum

To: Steering Committee Members,
Montana Economic Development Project (MEDP)

From: John C. Sawhill

January 1983

FINAL SUMMARY AND RECOMMENDATIONS OF THE MEDP

As the new year begins and the new legislature convenes to act on the needs of Montana, I think it is an appropriate time for the Montana Economic Development Project to summarize its work. The attached document presents the recommendations as amended and passed by the Steering Committee on September 23, 1982. Descriptions of the process, participants, findings, and recommendations are included in this document.

The recommendations reflect Montana's unique situation. Montana, with all its resources and attractions, has some barriers to overcome - it is not, as we have found, "poised for growth." Montanans, however, have made clear through the Montana Poll, and overwhelming approval of Initiative 95, that they want government, business, the universities, labor and interest groups to cooperate and begin improving the state economy in a way that's sensible and beneficial for Montana.

The recommendations include organizational, substantive, and symbolic actions. The organizational ones will ensure that someone takes responsibility for leading development efforts and that there is an ongoing, professional effort to generate new investment and employment opportunities. The substantive changes, like increasing support for tourism and phased environmental compliance, will provide useful assistance to key Montana industries. Symbols like investigations of Montana's tax structure serve notice of new cooperation and support for Montana's economic progress. Together, the recommendations provide a balanced plan of action for Montanans to begin improving the economy from within.

Barbara Mullin, Jon Winder, and I have thoroughly enjoyed working with many diverse Montanans throughout the Project. I will continue to work with the Steering Committee through the Montana International Trade Commission and others and will come to Montana in the spring to review progress and help plan the next steps.

Montanans have a very bright and optimistic future of economic progress if the spirit of cooperation and action prevail.



1 - PROJECT OBJECTIVES, ORGANIZATION AND ACTIVITIES

The essence of the Montana Economic Development Project is highlighted in this press release excerpt from last spring.

"The Montana Economic Development Project is a cooperative effort co-sponsored by State Government and Montana businesses to identify and analyze economic development opportunities for Montana. Governor Ted Schwinden and Ian Davidson, Chairman of D.A. Davidson & Co., will Co-Chair the Steering Committee which includes representatives of state government, business, labor and the University System. The Steering Committee will direct and manage the project. The major work for the project is being done by McKinsey and Co., a worldwide, management and economic consulting firm headquartered in Washington, D.C.

The project will:

- Conduct a comparative analysis of Montana's economic competitiveness in the region and the nation;
- Compare trends in Montana's economy with the rest of the region and the nation;
- Conduct interviews with businesses to determine Montana's economic incentives and disincentives;
- Assess and itemize Montana's economic assets and liabilities.

The \$100,000 project which is funded by the private sector through the Montana International Trade Commission, and will be completed in September 1982. The final product will be a set of policy and program recommendations to the Governor and the 1983 Legislature which the Steering Committee has determined will improve Montana's economy. The Steering Committee will meet four times to review and approve information on the Montana Economy as it is developed and to review and finalize recommendations."



Increasing primary jobs and improving per capita income levels were the primary objectives.

OBJECTIVE

Primary job creation

REASON

- 43,000 now unemployed (10.5%)
- Primary job growth essential for "derivative" jobs to grow
- Need to build in job growth for population
- 10 percent below national average
- No evidence of converging to national average

Increase per capita income

In order of priority, the Project sought actions to foster economic development by

- ¶ Sustaining industries currently operating in Montana
- ¶ Helping Montana's current industries to expand
- ¶ Stimulating new business ventures to start up and develop
- ¶ Attracting new industries to the state - particularly in renewable resources and high technology

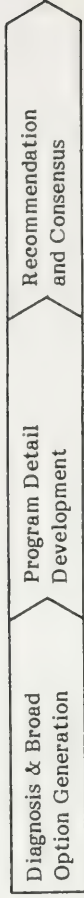
And, while the creation of better paying jobs is important, the state government has articulated additional economic development goals which need to be factored in as well.

ADDITIONAL PUBLIC POLICY GOALS

- Increase Montana's economic diversity
- Encourage widely distributed growth throughout Montana
- Lessen cyclical employment patterns
- Increase small business opportunities

The Project was divided into three phases.

MAJOR PROJECT PHASES



Purpose:

Develop possible programs for clearly identified development opportunities

Work up specific proposals for group consideration

Check specific proposals with interested parties for acceptance or amendment

Major Activities:

- . Review analyses done to date
- . Assess Montana's position relative to its neighbors on business location factors
- . Review development programs in other states
- . Interview wide range of economic participants for ideas on problems/solutions
- . Assess current problems/issues for major Montana industries and regions

- . Continue interviews of business/labor/public interest leaders for specific ideas
- . Review success of similar programs in other regions
- . Test emerging ideas for feasibility, practicality

- . Confirm appeal of proposals across sectors - modify as necessary
- . Seek consensus on specific recommendation priorities
- . Project costs & reasonable expectations of recommendations

End Product:

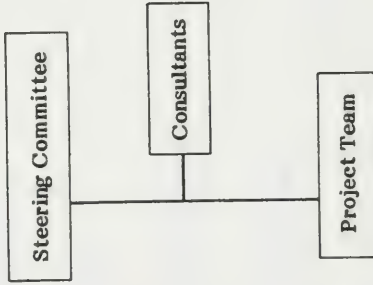
Presentation identifying Montana's strengths and weaknesses & suggesting "long list" of possible development programs

Presentation offering a set of specific program options with pros and cons

Public announcement of recommendations

Leadership and responsibility for the analysis and recommendations was placed at three levels.

ORGANIZATION OF THE PROJECT



Responsibility

Provides overall direction to the Project, reviews analyses and recommendations for overall soundness.

Assist the Project Team directly in executing the work, including both structuring analyses and gathering and processing information; prepare documents.

Directly responsible for gathering facts, analyzing and developing recommendations

A large and diverse Steering Committee reviewed findings and made the recommendations.

Steering Committee

Co-Chairmen

Ted Schwinden, Governor
State of Montana

Ken Byerly, News Publisher
Lewiston, MT

Bruce Ennis, President
Meridian Land & Mineral Co.

Ian Davidson, Chairman
D.A. Davidson & Co.

Lew Chittim, VP-Marketing
Morrison-Maierle, Inc.

Bob Ford, Mgr. Admin
Champion Packaging

Co-Vice Chairmen
Gary Buchanan, Director
Department of Commerce

Ralph Cox, President
Anaconda Co.

Rick Graetz, Publisher
Montana Magazine

Mike Fitzgerald, President
Montana International
Trade Commission

Frank Daniels
J.D. Farms

Curt Halseide
Schnitzler Corp

Members
Leo Berry, Director
Dept. of Natural Resources

Bob Decker, Lewis & Clark
County Commissioner

Dale Harris, Asst. to Dir.
Department of Commerce

Buck Boles, President
Montana Chamber of Commerce

Fred DeMoney, President
Montana Tech

Chase Hibbard, Pres., Gen Mgr.
Sieben Livestock Co

Neil Bucklew, President
University of Montana

Jerry Driscoll, President
Montana State AFL-CIO

Mark Hungerford, Pres., CEO
P.L.M., Inc.

Jerry Hudspeth, President
J.M. Inc.

Steering Committee Members (Cont.)

Ed Jasmin, President Northwestern Bank & Union Trust Co	Gareth Moon, Director Department of Lands	Buster Schreiber, President Mountain Bank
Maxine Johnson, Dir. of Bureau of Business & Economic Research University of Montana	Glenn Moore, Baker, MT	Peter Slaybaugh, Vice Pres Continental Oil
Nadine Jensen, Exec. Director AFSME, Council 9	Jim Murry, Exec. Secretary Montana State AFL-CIO	Tom Staples, Vice Pres. MITC
John Jutila, Vice President Research & Development Montana State University	Ed Nurse, President Foundation Materials Consultants, Inc.	Mel Stokke, Chairman MT Chamber of Commerce
Eldon Kuhns, CEO Montana Bank Systems	Wally Olson, Admin. Economic & Community Development Department of Commerce	Bill Thompson, VP-GenMgr Burlington Northern
George Lambros Lambros Realty	Charles Pedersen, Chmn, CEO First Interstate Bank	Bill Tietz, President Montana State University
Land Lindbergh Lindbergh Cattle Co.	Joe Presley, President Westmoreland Resources	Clayton Tonnemaker, Pres. Coal Creek Mining Co.
Joe McElwain, Chairman Montana Power Co.	Richard Remington, Vice Pres. Mountain Bell Telephone	Warren Vaughan, V.Chmn First Northwestern Nat'l Bank of Billings
Gordon McOmber, Director Dept. of Agriculture	Bob Reiquam, President Montana Bankers Assoc. & 1st Natl of Miles City	Gary Wicks, Director Department of Highways
Harry Mitchell, President Ayrshire Dairy	John Rice, Chairman Transystems, Inc.	Dwight Wiggins, Mgr Exxon Refinery

Throughout, a broad-based Project Team oversaw the effort, participated in idea sessions, and reviewed drafts.

PROJECT TEAM MEMBERS

Academia

Maxine Johnson

Director, Bureau of Business and Economic Research
University of Montana

John Jutila

Vice President, Research and Development
Montana State University

Business

Buck Boles

President
Montana Chamber of Commerce

Mike Fitzgerald

President
Montana International Trade Commission

Tom Staples

Vice President
Montana International Trade Commission

Government

Leo Berry

Director
Department of Natural Resources

Gary Buchanan

Director
Department of Commerce

Dale Harris

Assistant to the Director
Department of Commerce

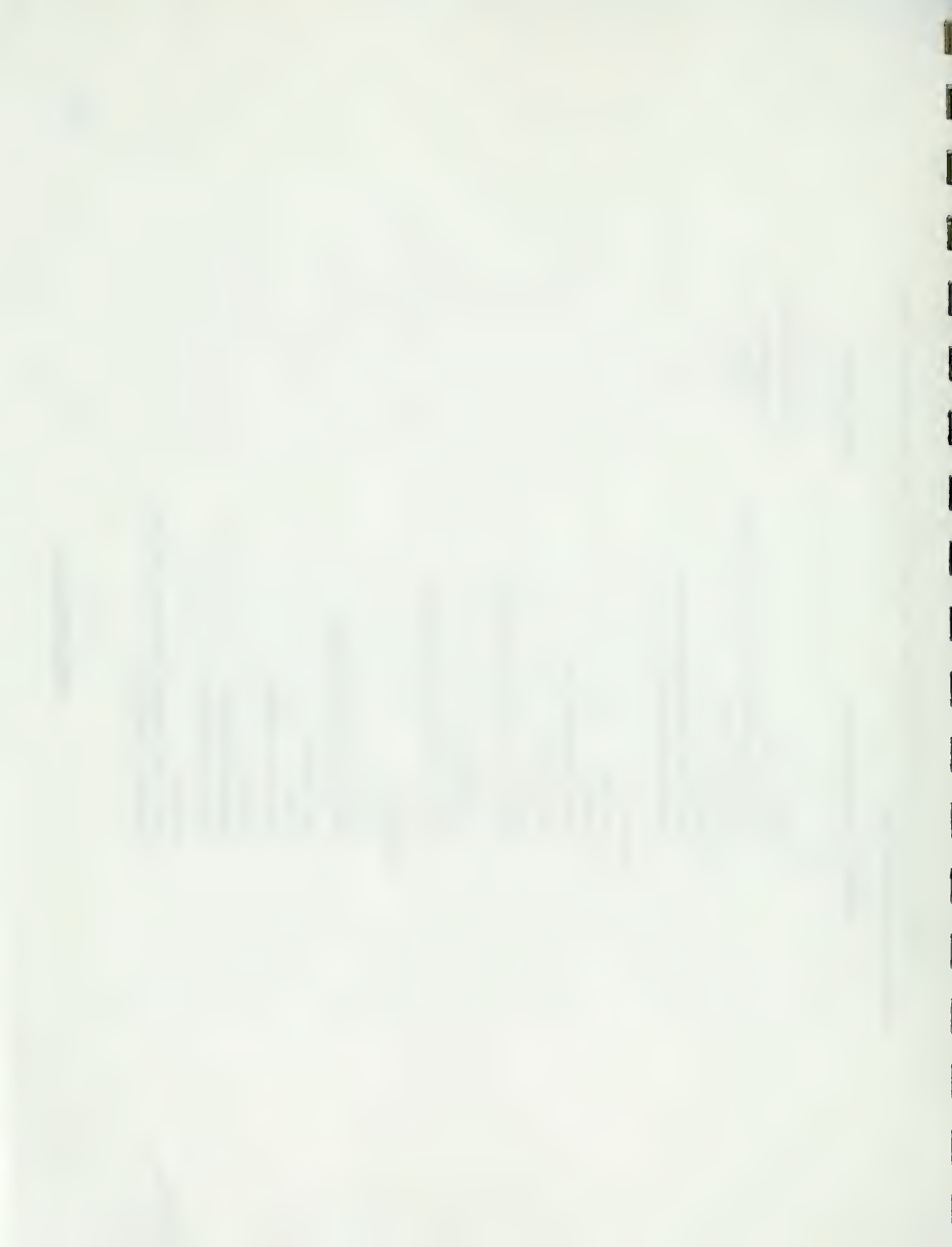
Wally Olson

Administrator, Economic & Community Development
Department of Commerce

McKinsey & Company

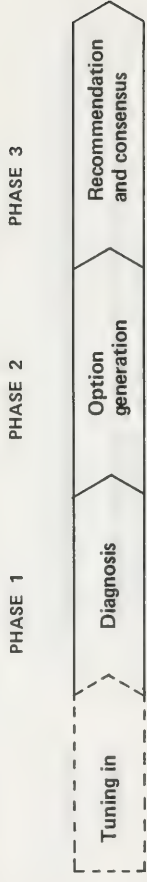
John Sawhill
Jon Winder
Barbara Mullin

CONSULTANTS



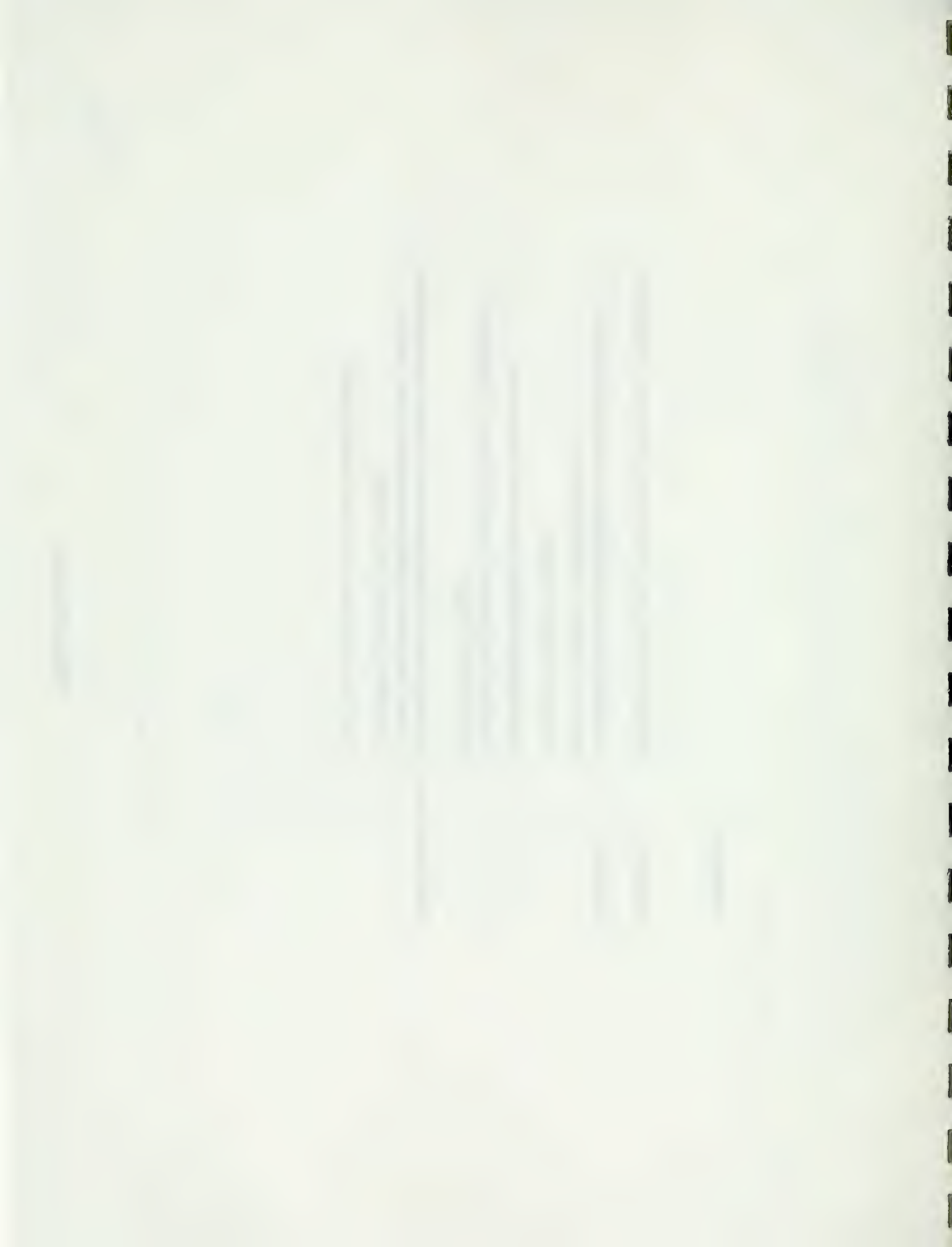
Each phase of the Project addressed a progressively more focused question. The following pages recap the activities and major conclusions of each phase with comments.

PROJECT PHASES



Should Montanans be concerned about economic development?	What are Montana's strengths, weaknesses, and opportunities?	What specific actions might Montana take?	What final recommendations are appropriate?
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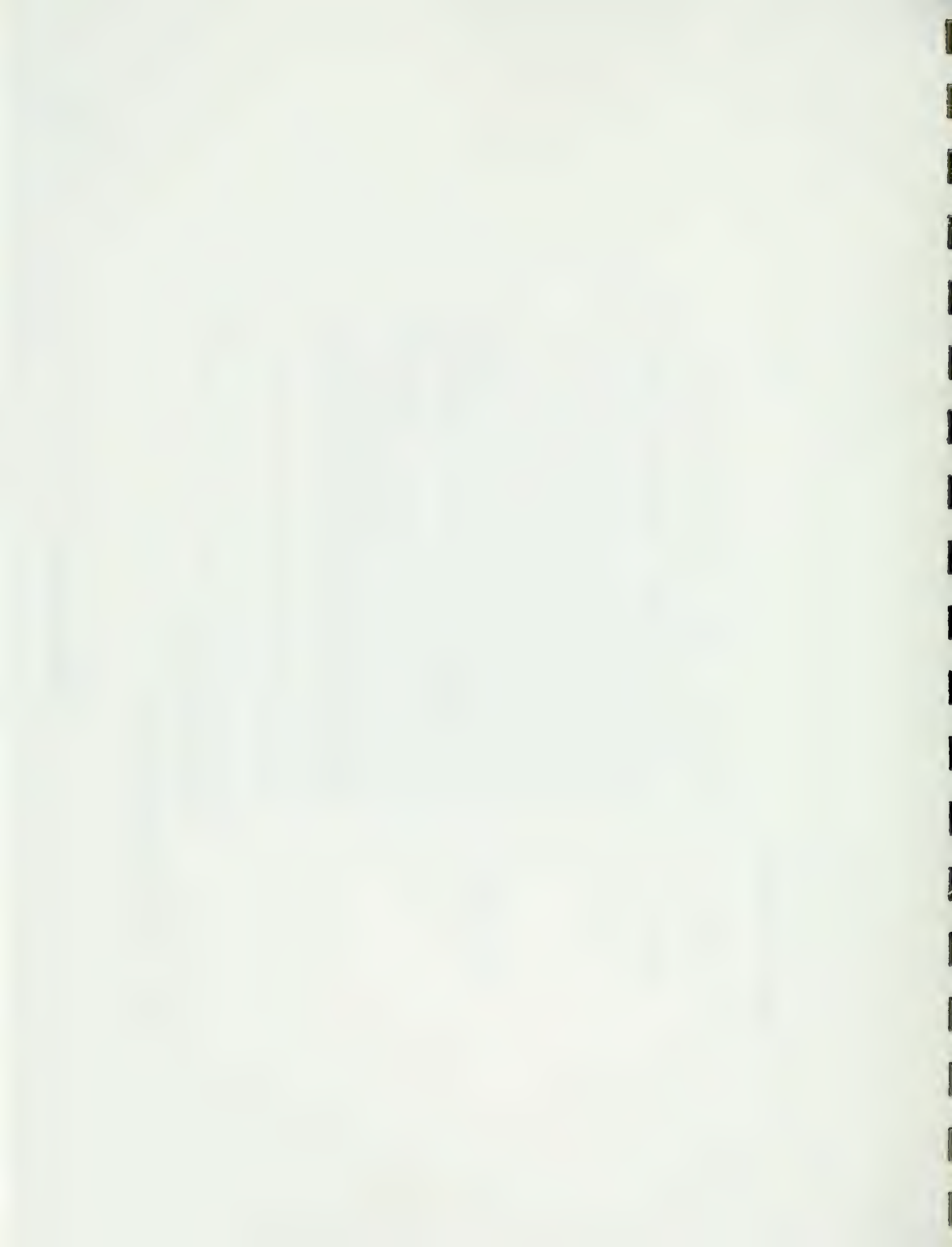
March 18	May 13	July 29	Sept 23
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PHASE 1 — DIAGNOSIS

Question:	What are Montana's strengths, weaknesses and opportunities?
Activities:	Analyzed Montana's position on each location factor, primarily with help of state government Analyzed Montana's position in each major industry Conducted initial 35 interviews, primarily of Montanans* Began examination of what other states, provinces are doing to encourage economic growth
Major conclusions:	"Job gap" exists—foreseeable new jobs not adequate to provide for indigenous population growth; closing average per capita income—gap an unrealistic goal Montana is not poised for growth—natural resources are major near-medium term opportunity; other areas will require special effort Transportation is a significant problem; environmental standards a "mixed bag" relative to other states; perception of anti-business attitude exists Active effort is required to stimulate growth; other states appear to be doing more Steering Committee specifically requested more information on taxes and workers' compensation

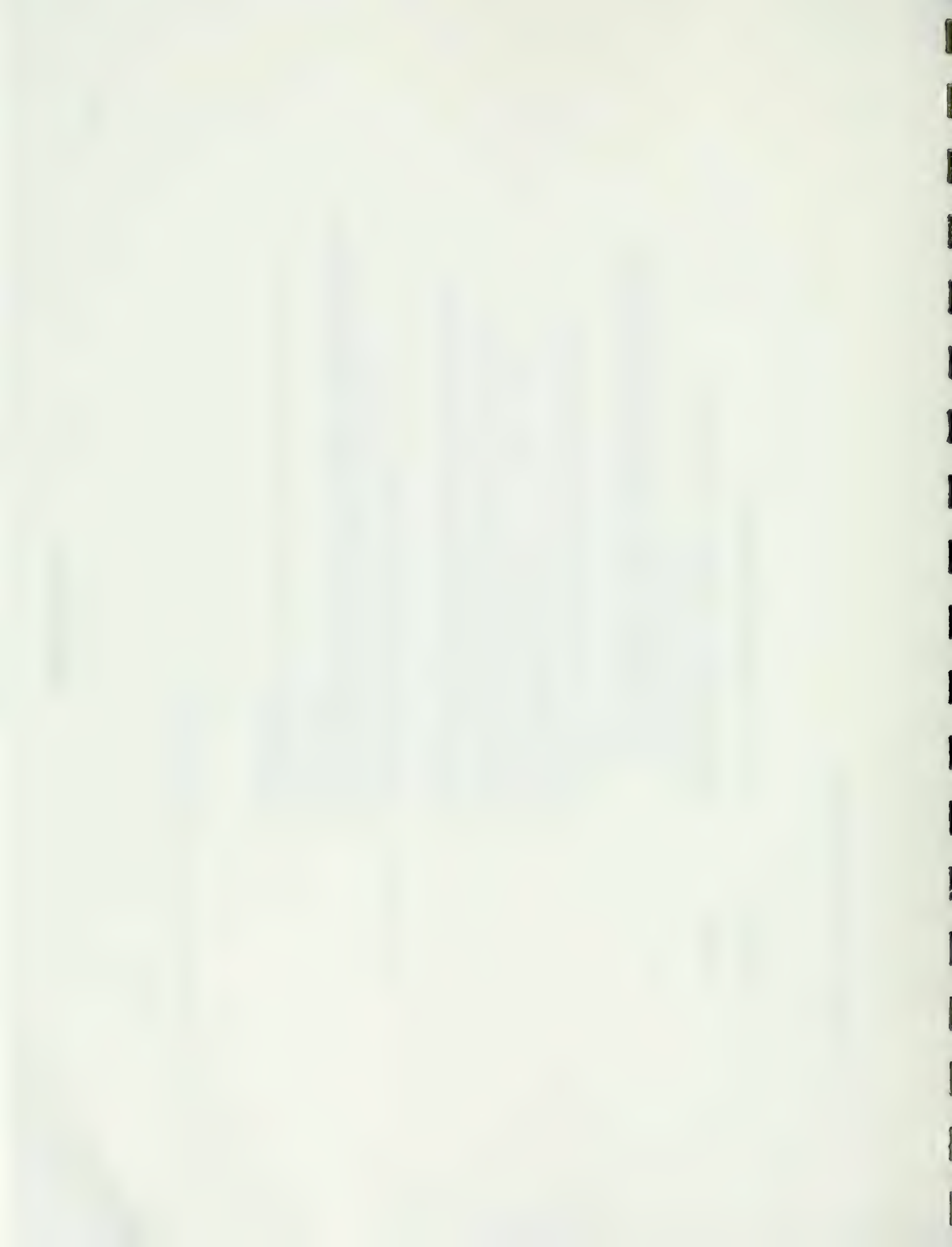
* See Tab 2 for listing of all organizations contacted.



PHASE 2 – OPTION GENERATION

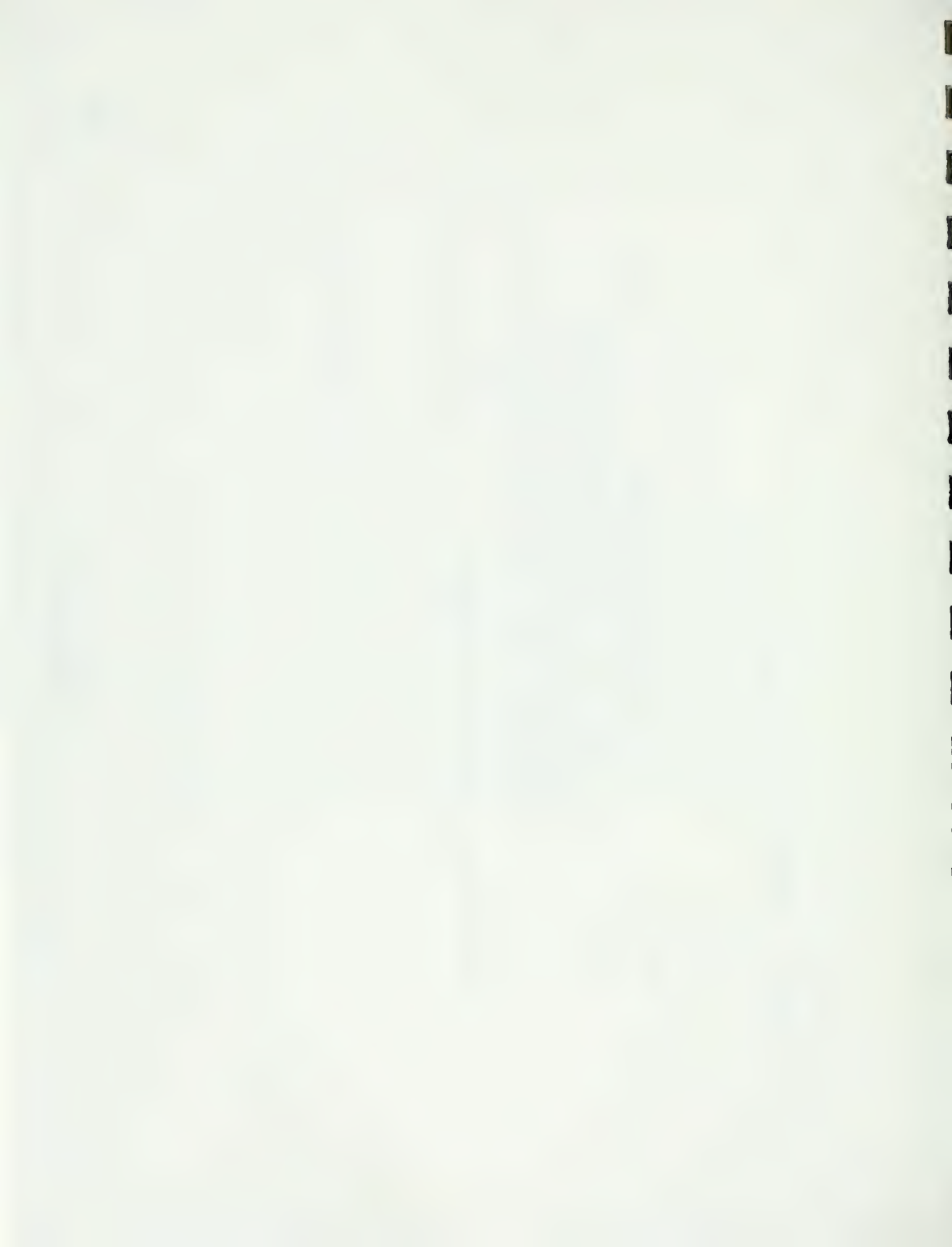
Question:	What specific actions might Montana take?
Activities:	<p>Completed more than 175 interviews (including initial 35) *</p> <ul style="list-style-type: none">- 148 in-state, 27 out-of-state- 134 in business, 41 non-business <p>Included academia, business, development groups, government, labor, out-of-state businesses, location experts, public interest groups, and others</p> <p>Surveyed and polled small business community with SBAC assistance</p> <p>Surveyed and polled state legislature</p> <p>Sponsored focused public opinion survey within <i>Montana Poll</i></p> <p>Examined economic development activities in more than 25 states</p> <p>Developed additional information on two issues requested by Steering Committee</p>
Major conclusions:	<p>Montanans very clearly want economic growth</p> <p>Much more could be done within Montana to assist the “anchor” industries, develop “anchor enhancements” and “new businesses” and generally encourage economic growth</p> <p>Of 35 ideas offered, 24 were passed on for further consideration; one new idea was added</p>

* See Tab 2 for listing of all organizations contacted



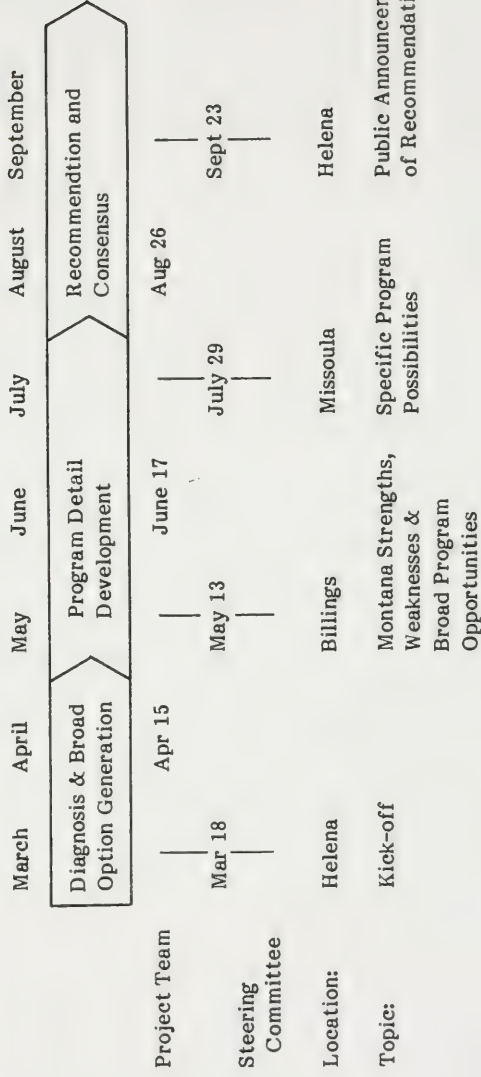
PHASE 3 – RECOMMENDATION AND CONSENSUS

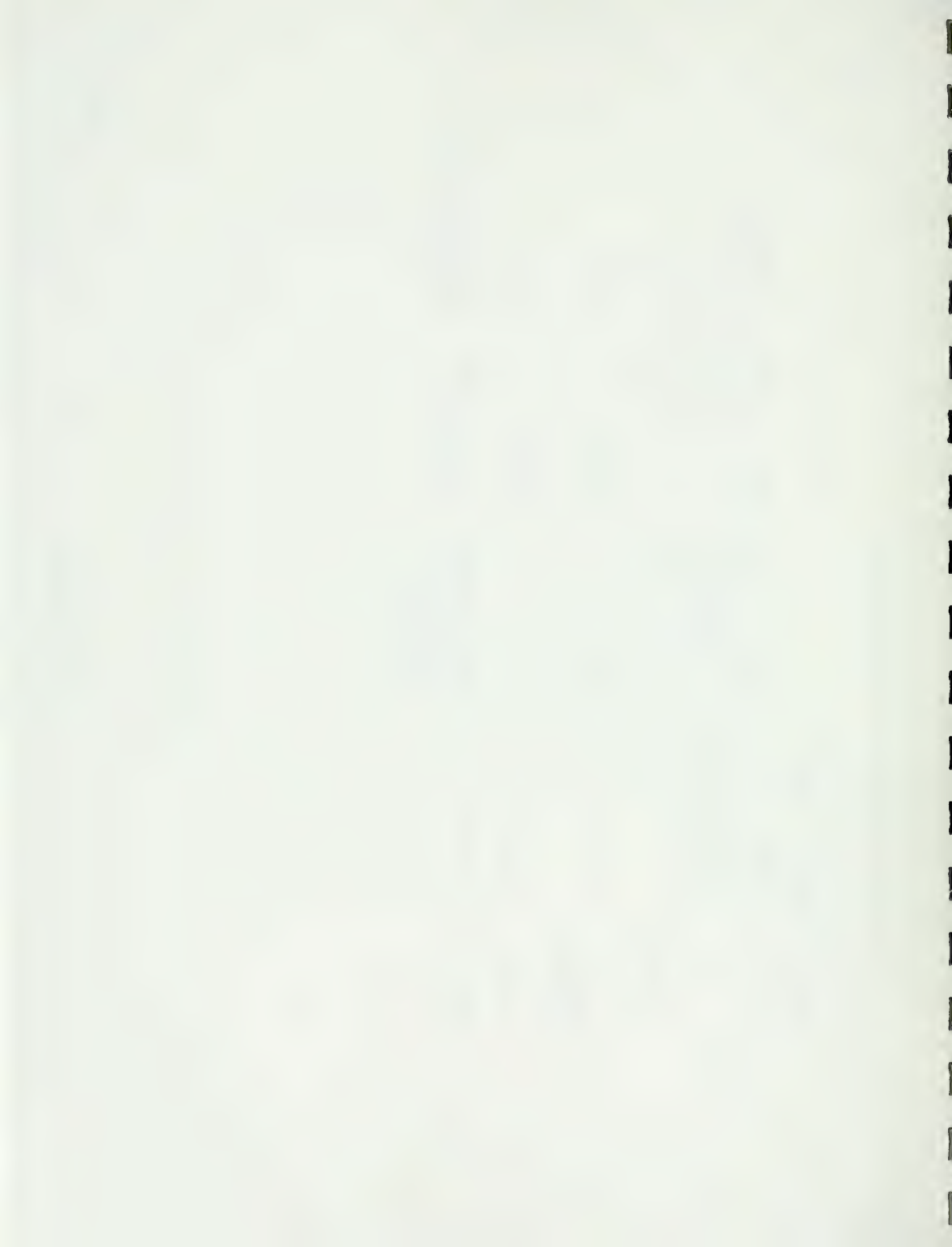
- Question: What final recommendations are appropriate?
- Activities: Documented the “case” for each idea, drawing on special expertise
Solicited additional ideas from Steering Committee members
Informed various citizen and interest groups of Project activities, status, and findings
- Major conclusions: Set of approved recommendations

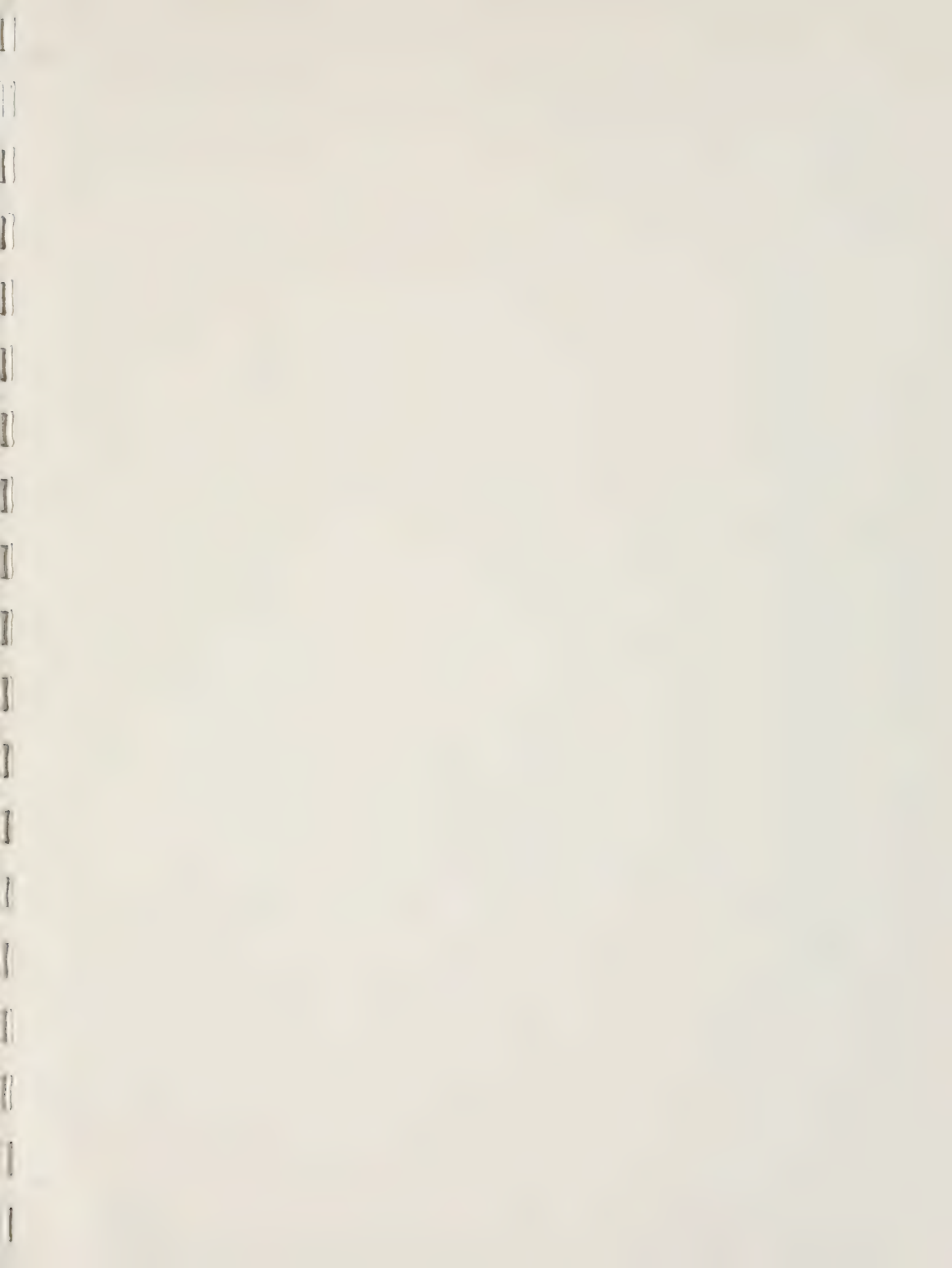


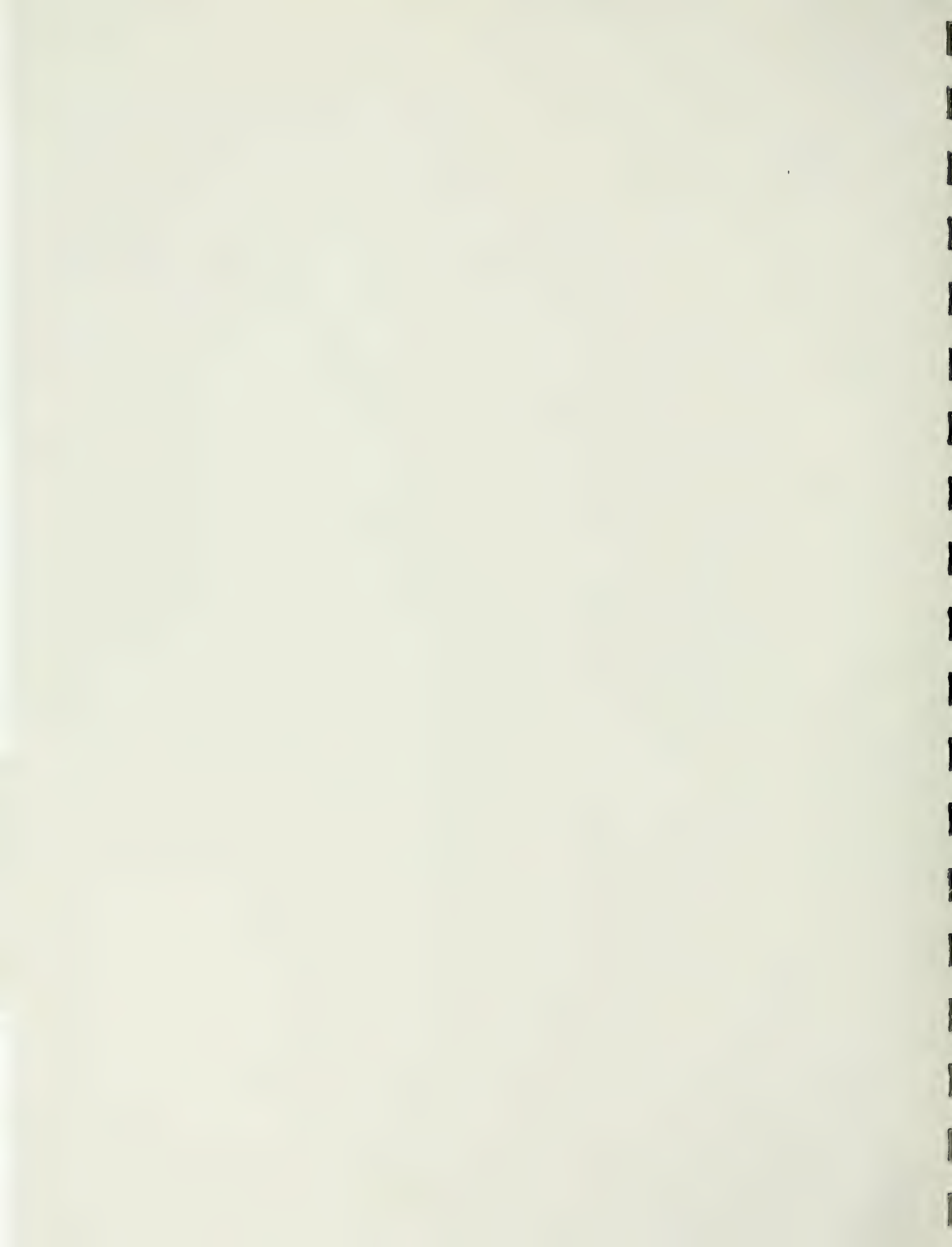
The Project kept precisely to its original timetable.

TENTATIVE PROJECT TIMETABLE









2 - ORGANIZATIONS CONTACTED

The Project contacted 175 organizations in eight different categories.

Academic

Business (Montana)

Development Groups

Financial Institutions

Government

Labor

Out-of-State/Location Experts

Interest Groups

Note: Inclusion in this list does not mean that these organizations endorse all or specific recommendations. Further, to retain confidentiality as requested by or agreed with some responders, some organizations have been listed only as general entries. Small business and the 1982 Legislature were surveyed with a written form.



ACADEMIC

Bureau of Business & Economic Research

Commissioner of Higher Education

Montana Board of Regents

Montana College of Mineral Science
and Technology

Montana Committee for the Humanities

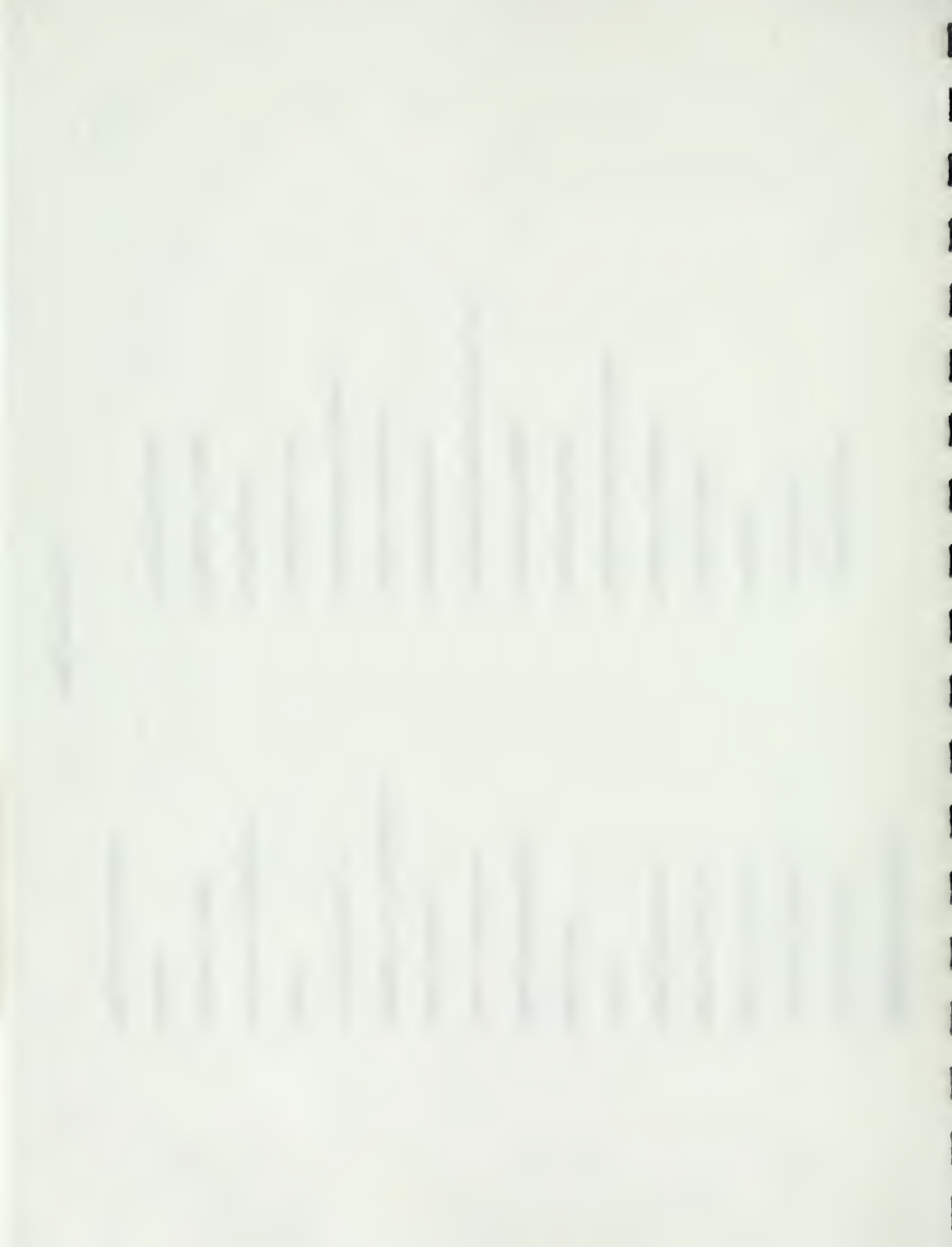
Montana State University

University of Montana



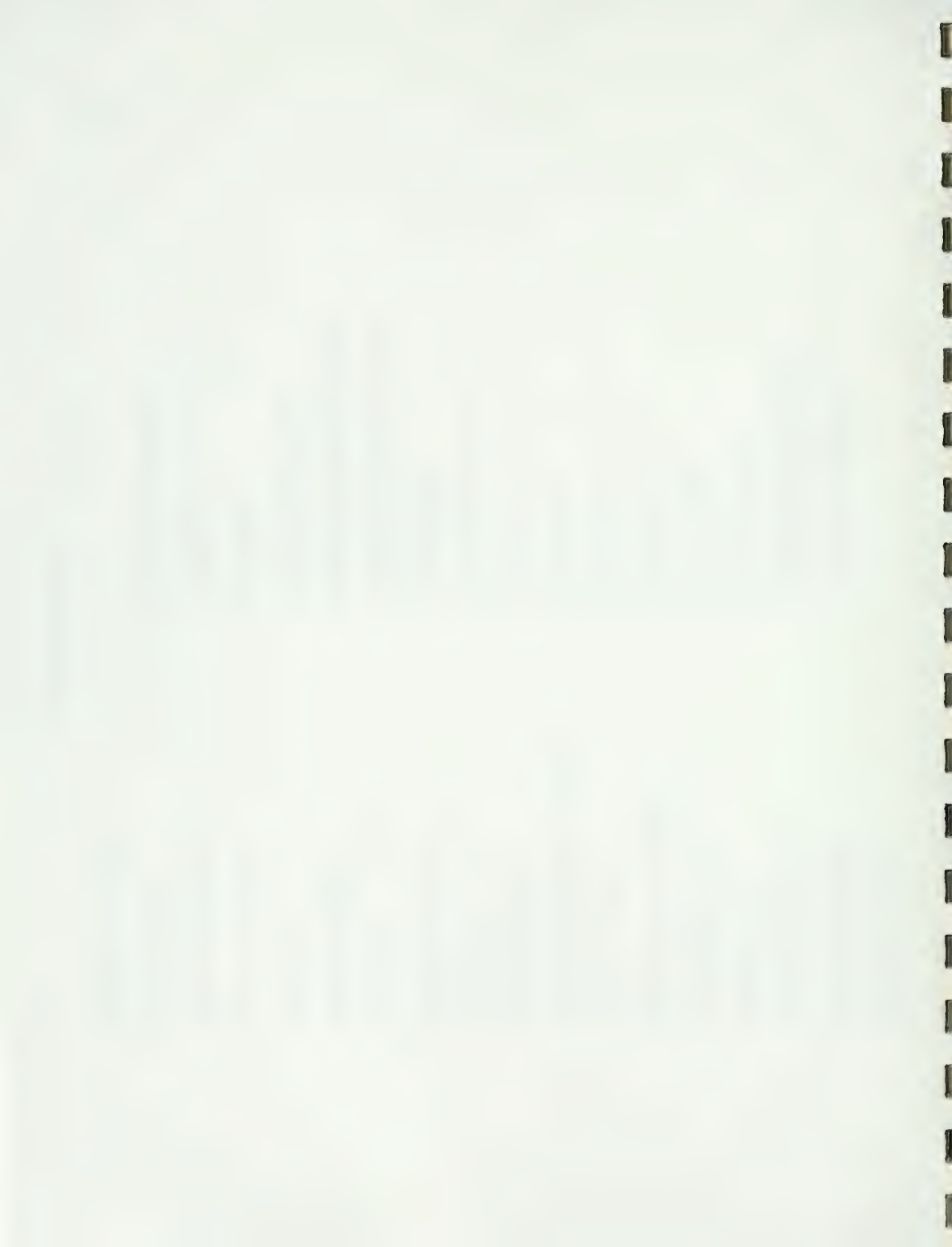
BUSINESS (MONTANA)

A. K. Equipment*	Anaconda Company
Anaconda Minerals Co.	Ayrshire Dairy
Bakke Tire Service*	Ban King*
Big Bud Tractor Inc.	Big Sky Airlines
Big Sky Fabricating	Boedecker Resources
Bryan's	Burlington Northern Railroad
Capitol Aero	Cary's Paint Store*
Champion International	Champion Packaging
Coast to Coast Store*	Computerite Business Services, Inc.*
Conoco Refinery	Convenient Stores
Crisafulli Pump Company, Inc.	Cut Back Greenhouse*
Cut Bank Mercantile*	Davis Mercantile Company
Dentist*	Drive In Rest Motel*
Dye Tavery & Judge Inc.*	Eco-Northwest
Elk River Printing	Evergreen Company
Fibretech	Foster Honey Ranch
* Mail Survey Responses	



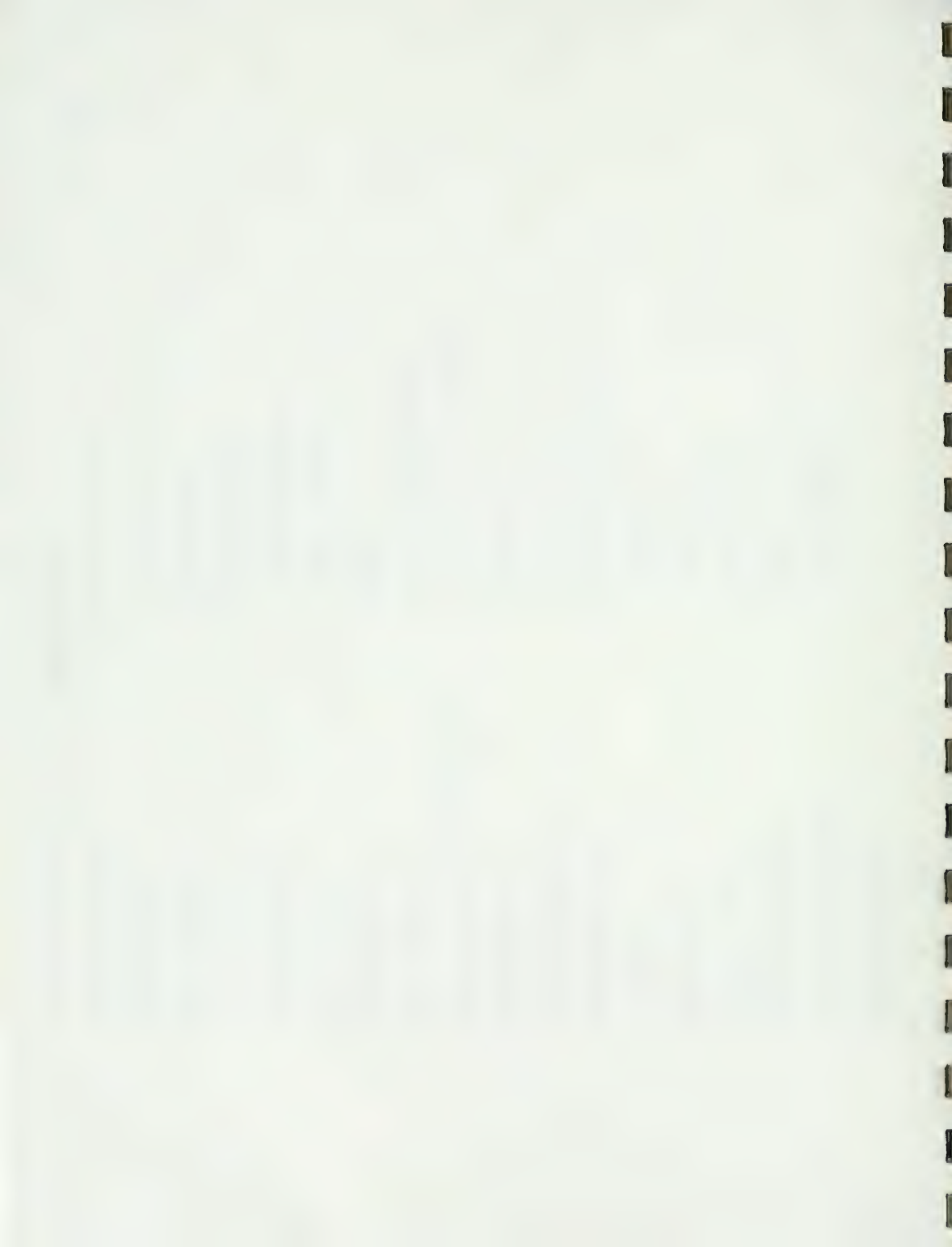
BUSINESS (Continued)

Foundation Materials, Inc.	Garrahan's Greenhouse*
Gatzemeir Builder*	Green Mountain Manufacturing
Hart Albin	Hartland Chevrolet*
Heltne's Oil Co., Inc.*	High Tech Hydro
Hinsdale Livestock Company	Holland Hart
Holly Sugar Company	Honeyland Inc.
H&R Propane Battery Warehouse*	J&A Insurance
Jerry Noble Tires*	Keating Oil
Lambros Realty	Lame Deer Trading, Inc.*
Lewistown Argus News*	Maddox Roofing*
Markle's Inc.	Martinson Century 21 Real Estate*
McFarland Cascade	Meridian Land & Mineral Company
Measuronics	Midland Packing Company
Mill Service Company*	MJ Boutique
Montana-Dakota Utilities	Montana Livestock Cooperative
Montana Magazine	Montana Merchandising, Inc.
* Mail Survey Responses	



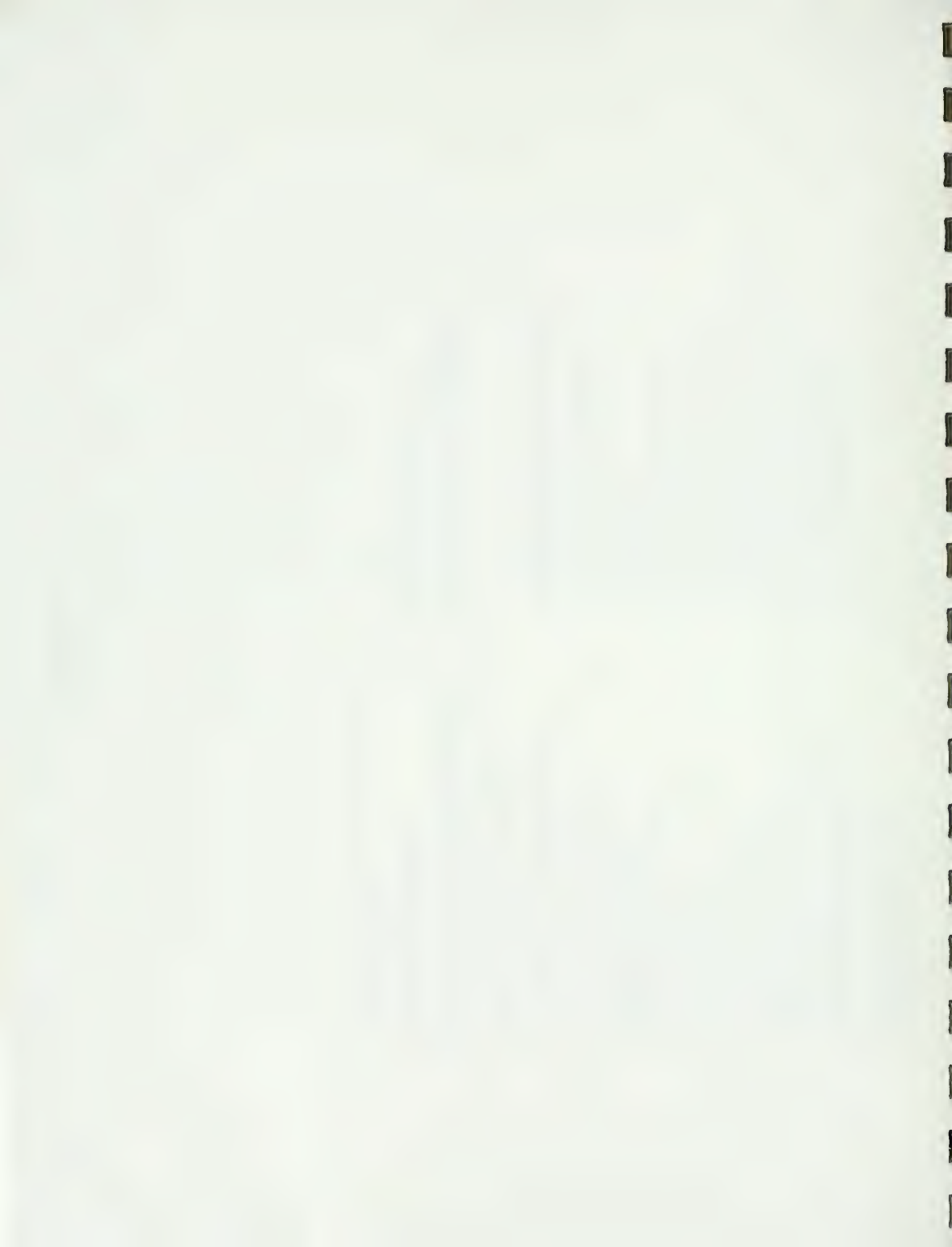
BUSINESS (Continued)

Montana Power Company	Morrison-Maierly
Mountain Bell Telephone	NERCO
Nicholson Paving*	Nordak Industries
Northern Hotel	Northern Tier
Orionics, Inc.	Outlaw Inn
Pierce Manufacturing	PLM Rail Car Maintenance Company
Powder River Pipeline Co.	Power Townsend Co.*
Ribi Immuchem Inc.	Rimrock Inc.
Roberts Rocky Mountain Equipment Co.	Roscoe Steel & Culvert Company
Sieben Livestock Co.	Sidney Mill Works Company
Skyland Scientific	Teletech
Taylor Industries	Stauffer Chemical Co.
Spectrum Electronics	The Whole Fandamily*
Transystems, Inc.	Weaver Equipment*
WESCO Resources	Western Analysis
Western Energy Co.	Western Telecomputer
Westmoreland Resources	Wood's Power Grip
*Mail Survey Responses	



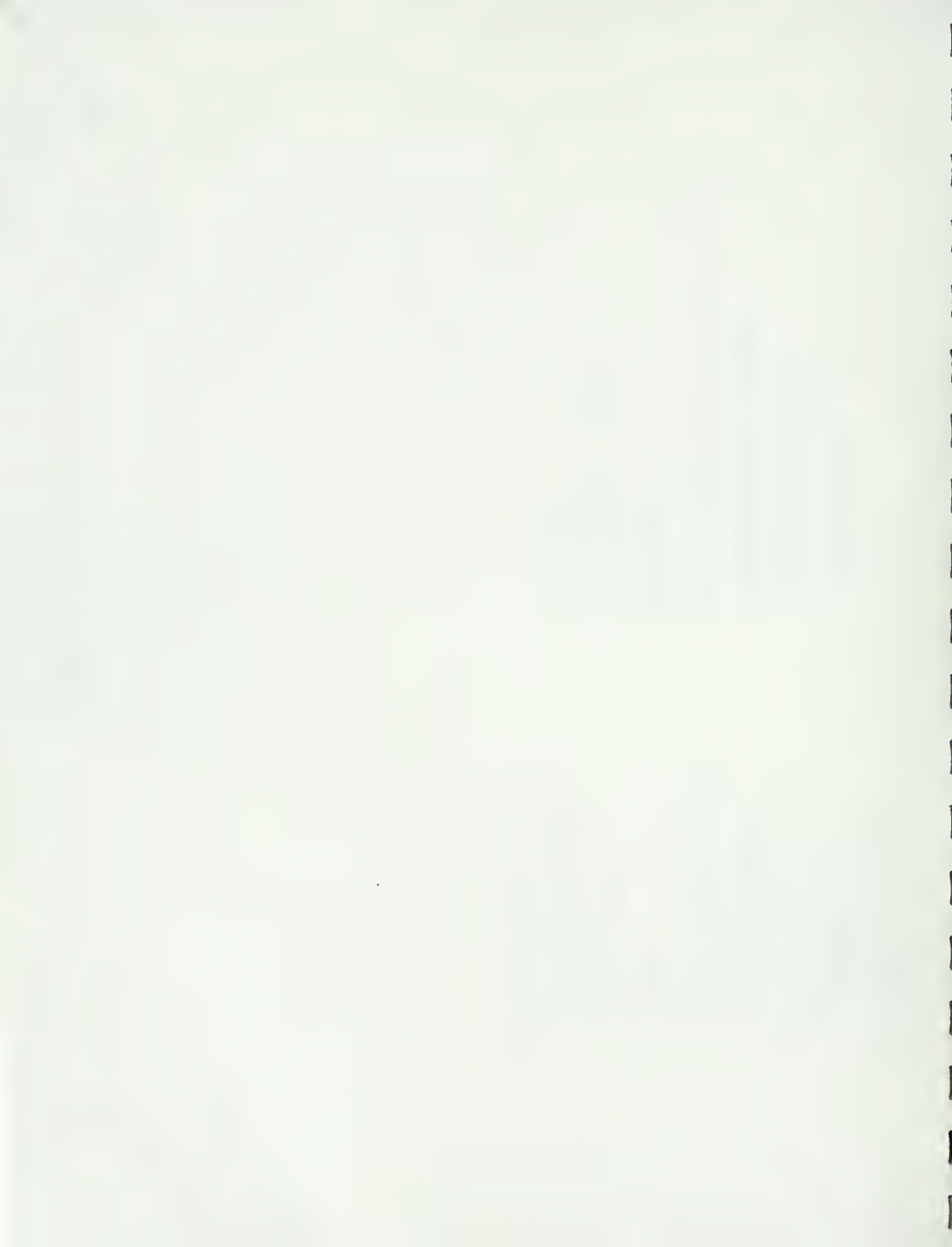
DEVELOPMENT GROUPS

Anaconda Local Development Corp.	Bear Paw Development Corp.
Billings Chamber of Commerce	Butte Local Development Corp.
Fort Peck Industrial Park	Great Falls Economic Growth Council
Missoula Jobs, Inc.	Montana Chamber of Commerce
Montana Energy Research & Development Institute	Montana International Trade Commission
Montana Mining Association	Montana Petroleum Association
Montana Stock Growers Association	Montana Wood Products Association
Montana Wool Growers Association	
Polson Community Development Agency	Private Industry Council of Montana
Shelby Development Corp.	Valley Industrial Park
Western Environmental Trade Association	



FINANCIAL INSTITUTIONS

D. A. Davidson	Farmers State Bank
First Bank Bozeman	First Citizens Bank Billings
First Citizens Bank Polson	First Interstate Bank of Great Falls
First National Bank of Miles City	First Northwestern National Bank of Billings
IFG Leasing	Mountain Bank
Montana Bank Systems	Montana Bankers Association
Northwestern Bank of Helena	Paine Webber
State Bank of Terry	



GOVERNMENT

Governor Ted Schwinden

Senator Max Baucus

Congressman Ron Marlenee

Environmental Quality Council Subcommittee
on Environmental Regulation & the Economy

Legislative Council

Lewis and Clark County Commission

Montana Federal-State Coordinator

Montana State Departments:

Administration

Agriculture

Commerce

Fish & Game

Health

Highways

Labor & Industry

Lands

Natural Resources

Revenue

Senator John Melcher

Congressman Pat Williams

Environmental Quality Council
Subcommittee on Hard Rock Mining

Legislative Interim Joint Subcommittee
on Business

Montana State Board of Investment

Montana Public Service Commission

Note: All neighboring state governments (along with many others) were interviewed by telephone.



LABOR

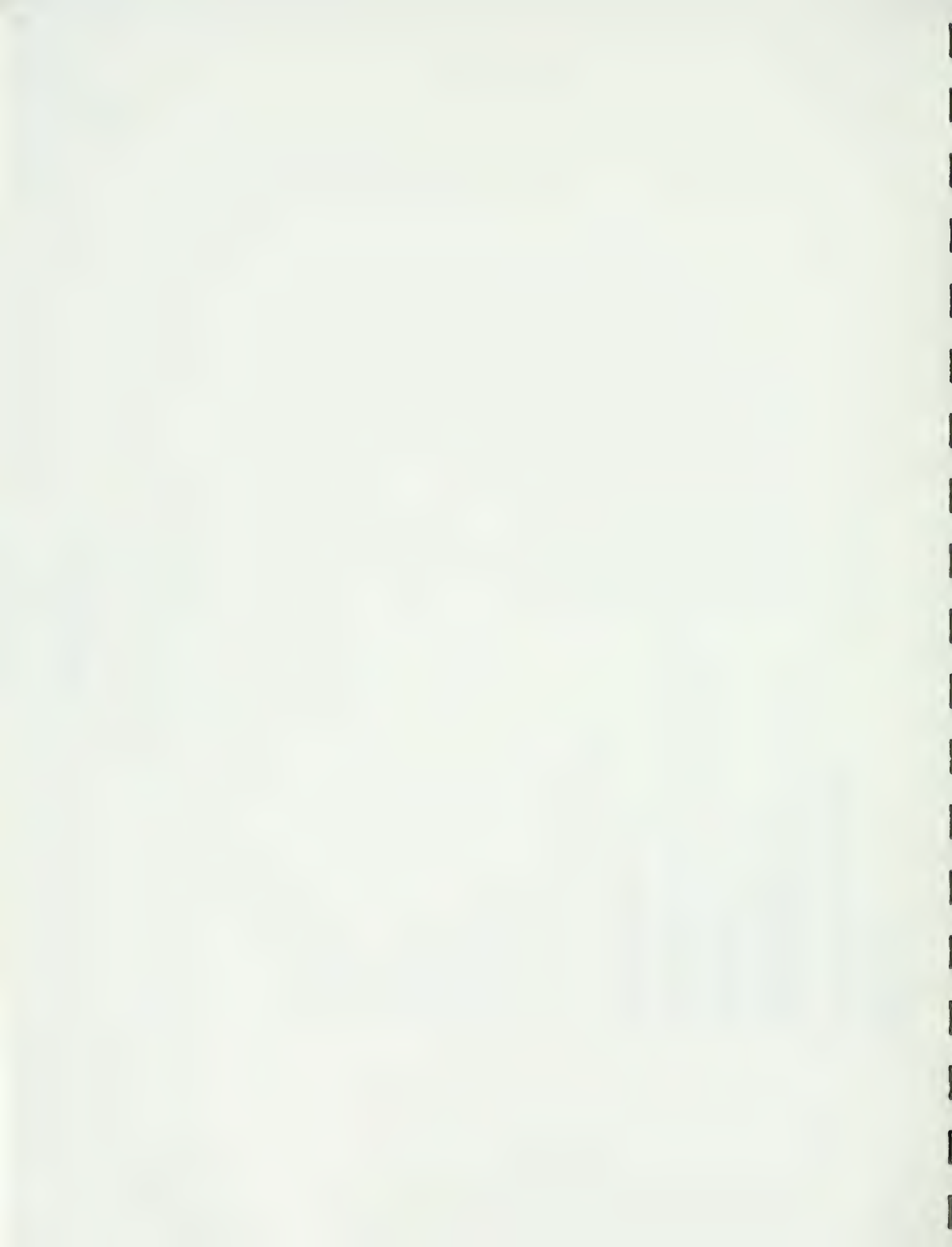
AFL-CIO Regional Paperworkers

American Federation of State, County &
Municipal Employees

Billings AFL-CIO

Butte Teamsters Union

Montana State AFL-CIO



INTEREST GROUPS

Environmental Information Group (founder)

Institute of The Rockies

Nature Conservancy

Northern Plains Resource Council

Northern Rockies Action Group

Rocky Mountain Development Council



OUT-OF-STATE BUSINESSES AND DEVELOPMENT COMPANIES

Alumax	American Medical Corp.
American Realty Services Corp.	Arthur D. Little
Atlantic Richfield	Bausch & Lomb
Bechtel Power Corp.	Bob Panero & Associates
Citicorp	Continental Oil
Crocker National Bank	David H. Sawyer & Associates
Denmark, Donovan & Opel	Economic Development Council of Puget Sound
Engineered Well	Fantus Company
Hart Corporation	Hart, McMurphy and Parks
Hughes Helicopter	Intermediate Technology
International Trade Attorney	Lane Economic Foundation
National Governor's Association	National Association of State Development Agencies
Peter Kiewitt	Union Pacific Railroad
PLM, Inc.	







3 - MONTANA ECONOMIC PERFORMANCE AND OUTLOOK

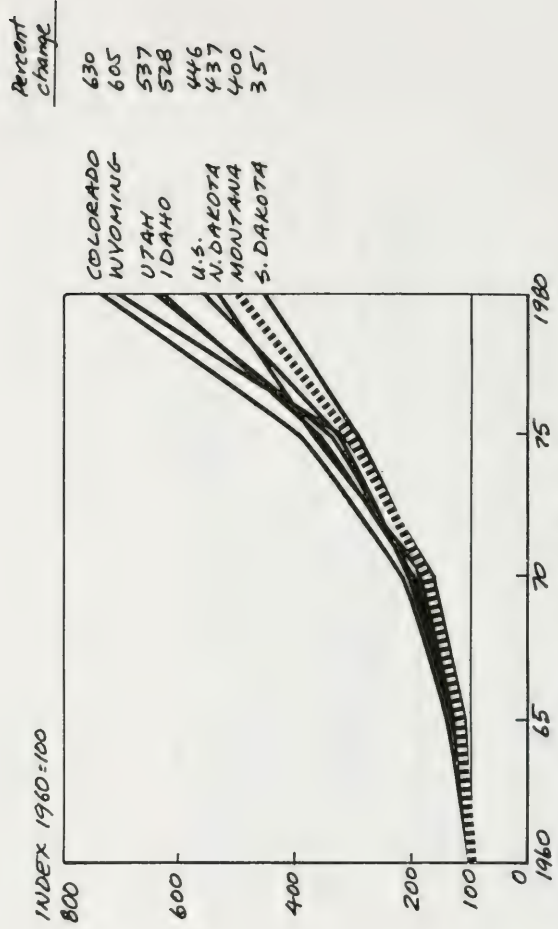
This review led to two major observations:

- A. Montana's economic performance has been below those of neighboring states
- B. The outlook is unfavorable - a significant primary "job gap" is likely to exist

A. ECONOMIC PERFORMANCE BELOW NEIGHBORS

Income growth in Montana has lagged behind the nation and most of its neighbors

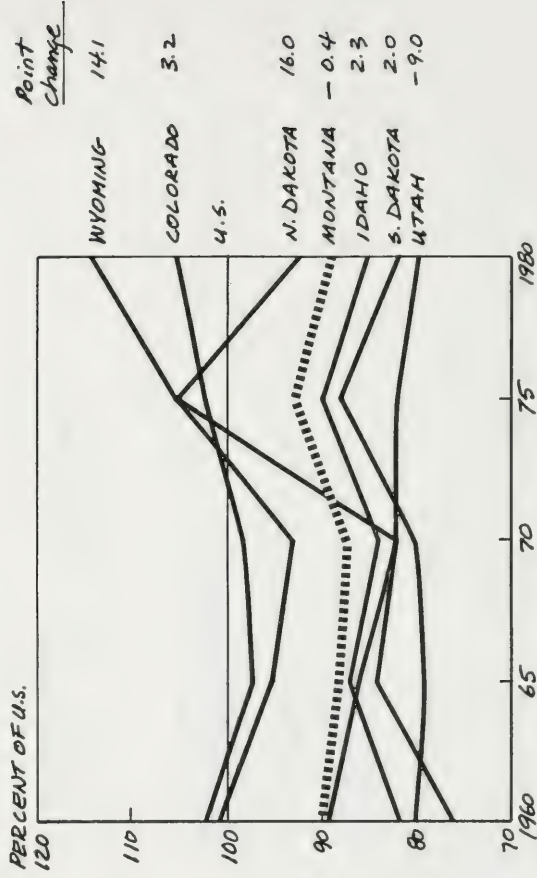
**GROWTH IN TOTAL PERSONAL INCOME
1960-80**



Source: Bureau of Economic Analysis, U.S. Department of Commerce

On a per capita basis, Montana has about held its own relative to the nation - while most neighboring states improved their positions, some by significant degrees

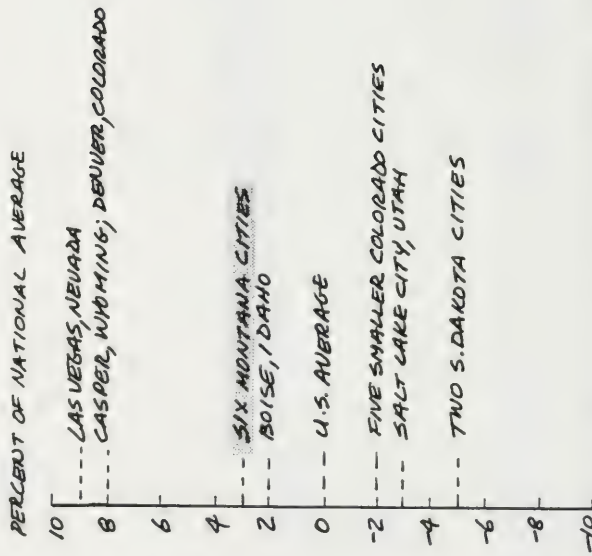
**INCOME PER CAPITA
1960-80**



Source: Bureau of Economic Analysis, U.S. Department of Commerce

In addition, the cost of living may be a little higher in Montana than in other regions (except for larger cities)

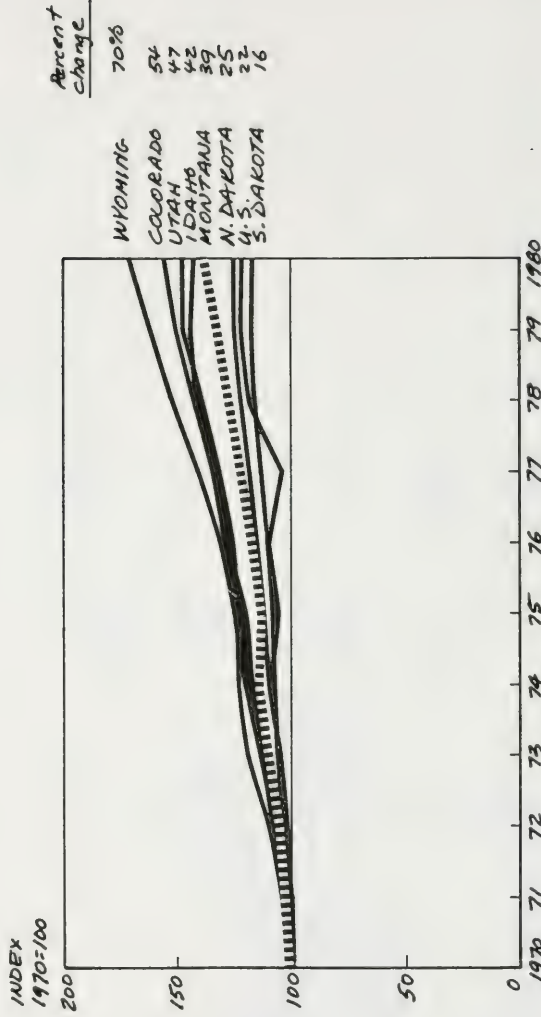
**COST OF LIVING
III Q 1981**



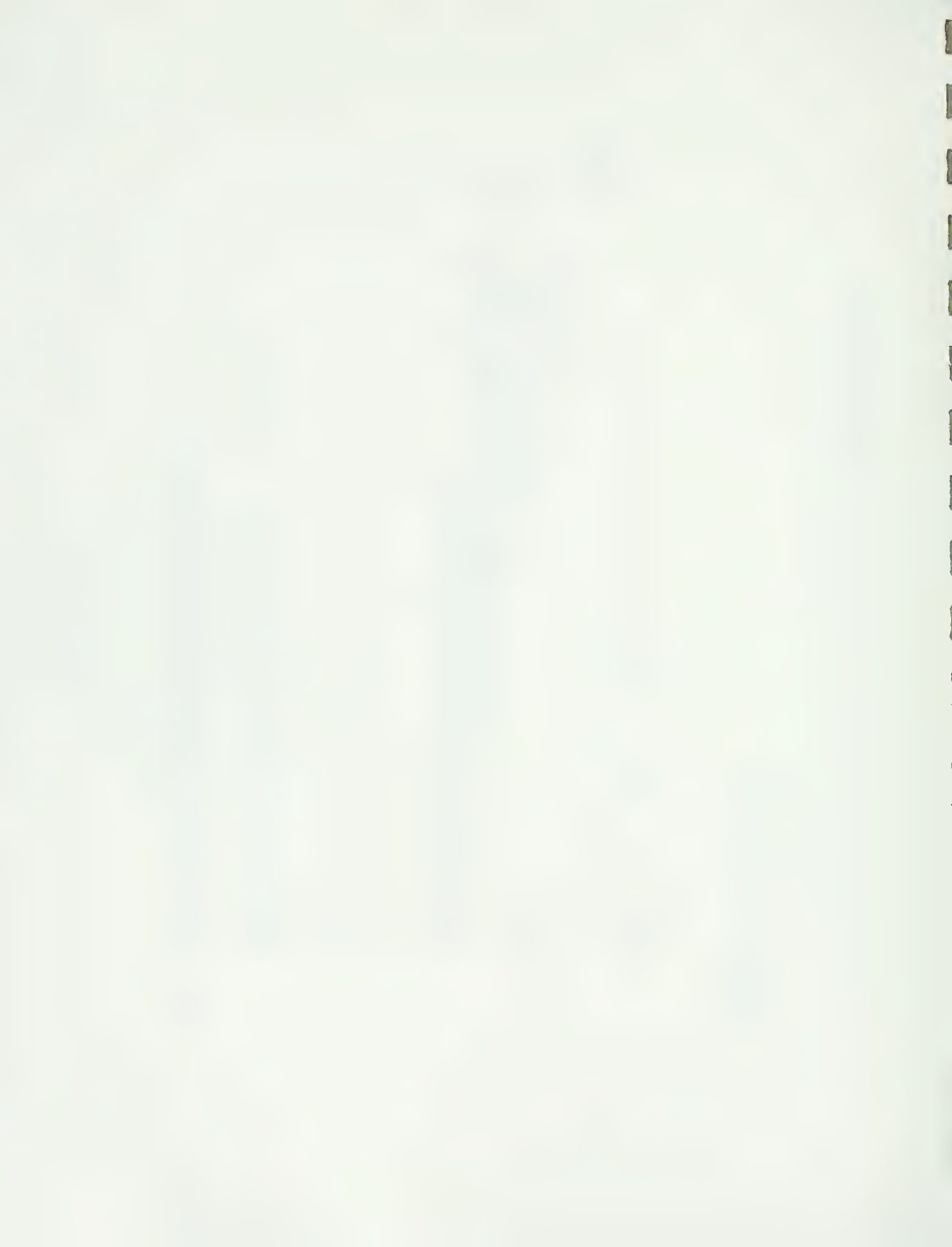
Source: American Chambers of Commerce Research Association

Employment growth in Montana has been lower than in most neighboring states

GROWTH IN EMPLOYMENT
1970-80

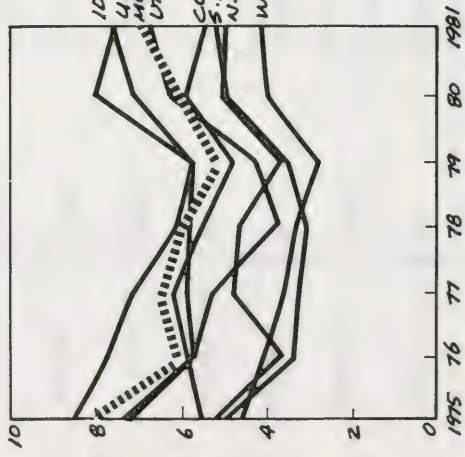


Source: Bureau of Economic Analysis, U.S. Department of Commerce



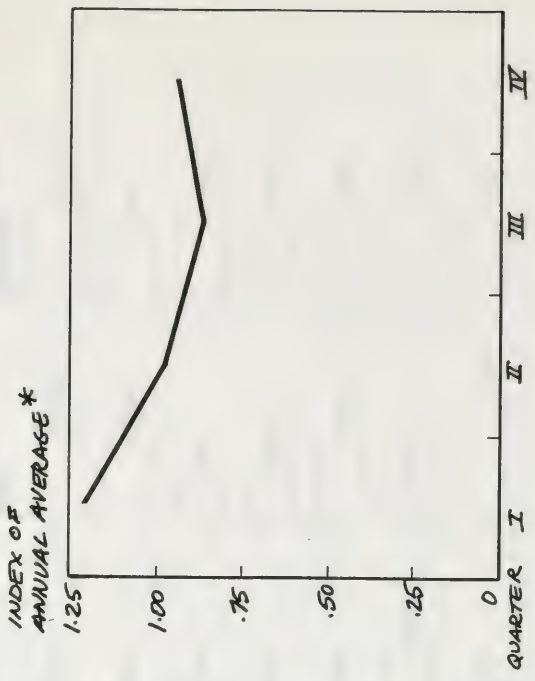
And unemployment has generally been higher in Montana than in neighboring states - and work is highly seasonal

UNEMPLOYMENT RATES
1975-81



State	Average 1975-81
IDAHO	6.56
U.S.	7.13
MONTANA	6.37
UTAH	5.66
COLORADO	5.61
S. DAKOTA	4.03
N. DAKOTA	4.56
WYOMING	3.78

ESTIMATED SEASONALITY OF UNEMPLOYMENT



Source: Bureau of Labor Statistics

* Based on 1979-81

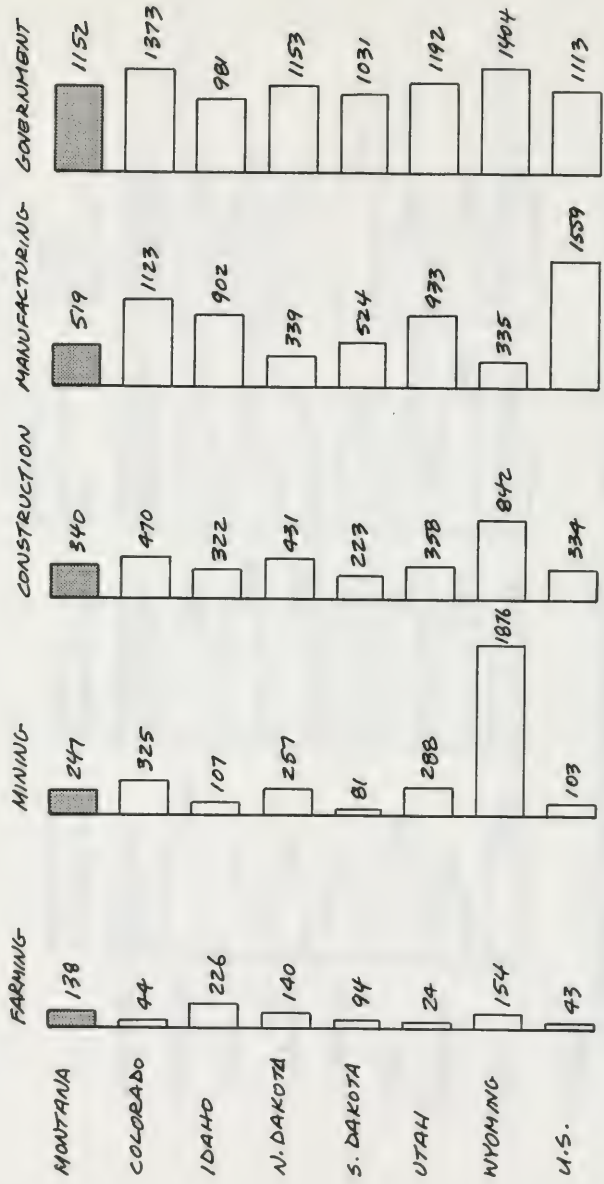


Graph of $y = \sqrt{x}$



Montana has not diversified its economic base as its neighbors have

**INCOME GENERATED PER STATE RESIDENT
SELECTED CORE INDUSTRIES - 1980
\$ PER CAPITA**



Source: Bureau of Economic Analysis, U.S. Department of Commerce.

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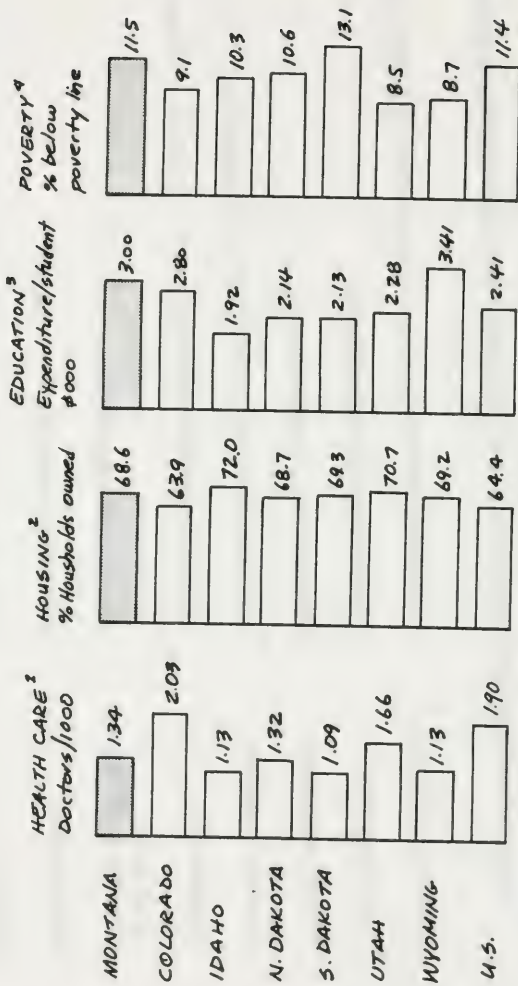
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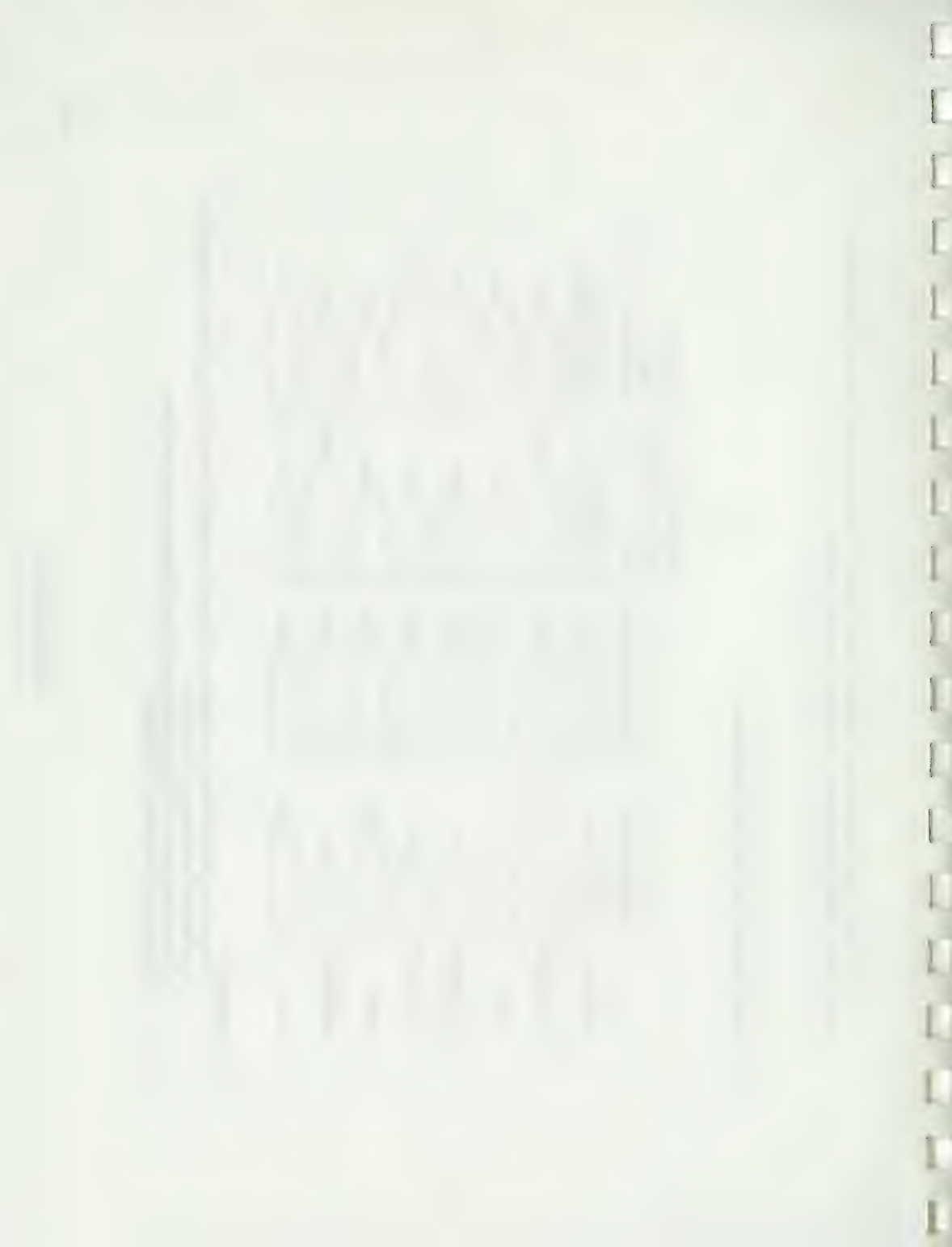
Perhaps most importantly, Montana has a mixed performance relative to its neighbors on some basic - albeit incomplete - indicators of social welfare

INDICATORS OF SOCIAL WELFARE



SOURCE:

1. Physician Distribution and Medical Licensure in the U.S., 1979, American Medical Association
2. Bureau of the census, 1980 data
3. NCEES statistics of Public Elementary and Secondary Schools, 1980
4. Bureau of the Census, 1975 data

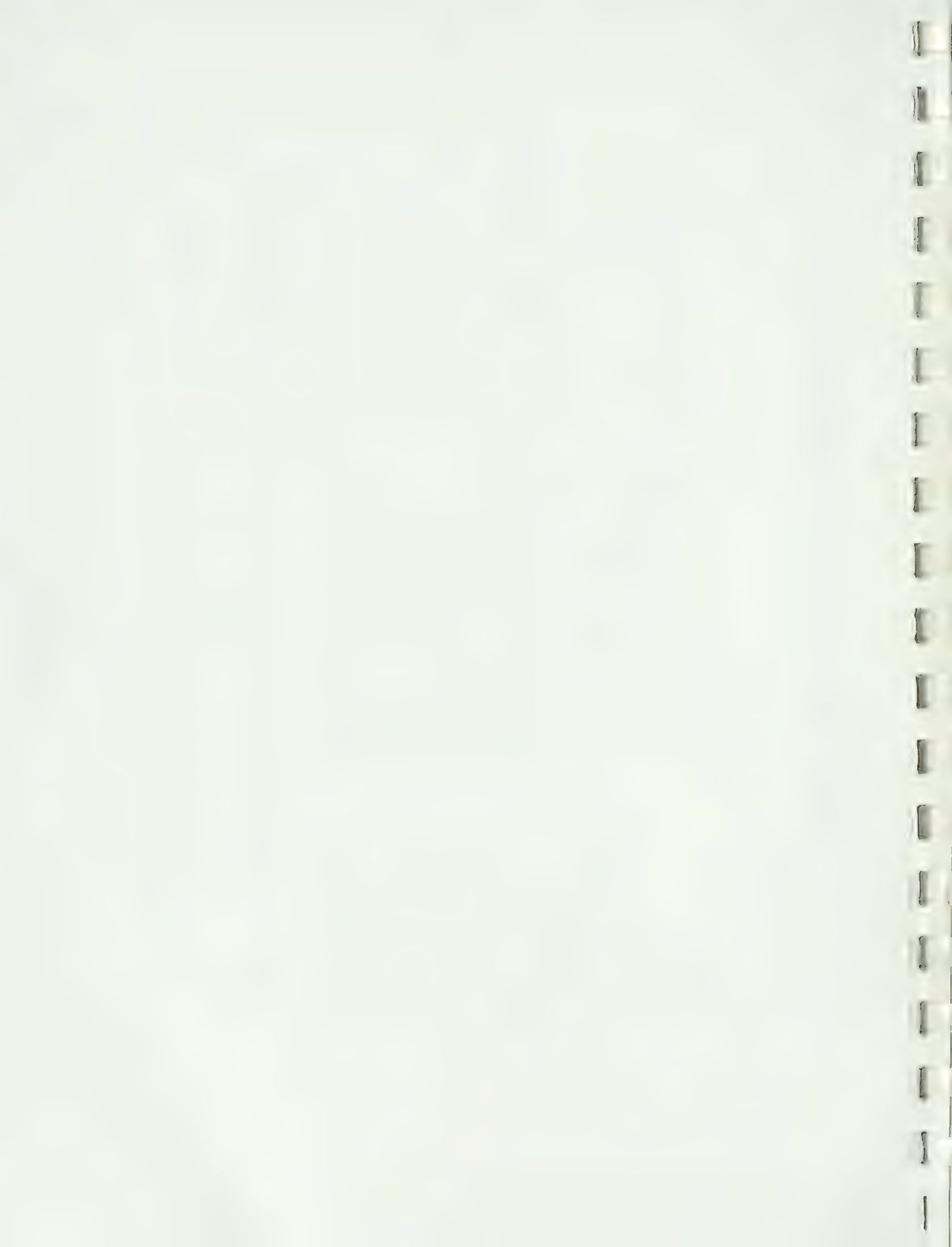


B. OUTLOOK UNFAVORABLE

A number of mainstay employers have cut back their employment rolls considerably - or even shut their doors.

<u>Employer</u>	<u>Recent Action</u>
Anaconda	Laid off 1500 since 1980 - and may shut down completely
Evans Plywood	Laid off 400-500 employees in 1980
Champion International & St. Regis	Sporadic personnel cutbacks
Mountain Bell	Consolidated headquarters out of state - relocated or laid off 350 personnel
Milwaukee Railroad	Shut down December, 1980, with loss of 800-900 jobs
Burlington Northern	Reduction of 500-600 employees
State Government	Reduction of 400-500 employees
Federal Government	Announced cutback of 160 Forest Service jobs - with goal of 300

And these unemployment losses are only the direct losses - secondary employment effects may be double.



Many of these resource-based projections are clouded, or already represent considerable reductions from earlier forecasts.

RESOURCE-BASED INDUSTRY ISSUES

COAL

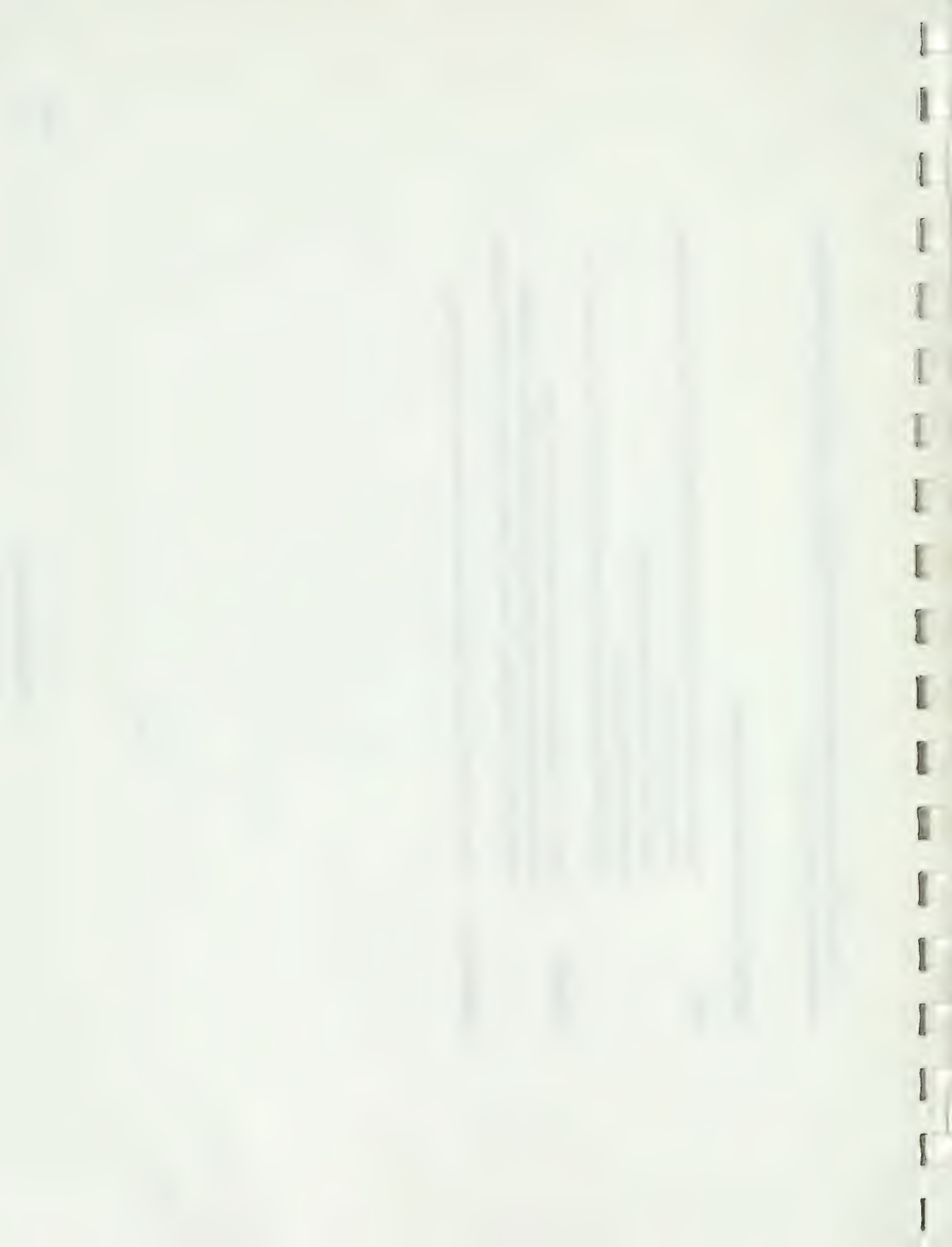
"Yellowstone Study" (1974) estimated 269 million tons by 2000 - versus current 100 million projection
Powder River lower cost, better located
Synfuels slow being realized
Pacific exports smaller than anticipated for US; Montana coal is lower BTU

TIMBER

Long term housing market may not recover to historic levels
Rail rate deregulation already causing major market shifts in Northwest
Harvest patterns must change - lucky to retain 1.2 billion board feet long term

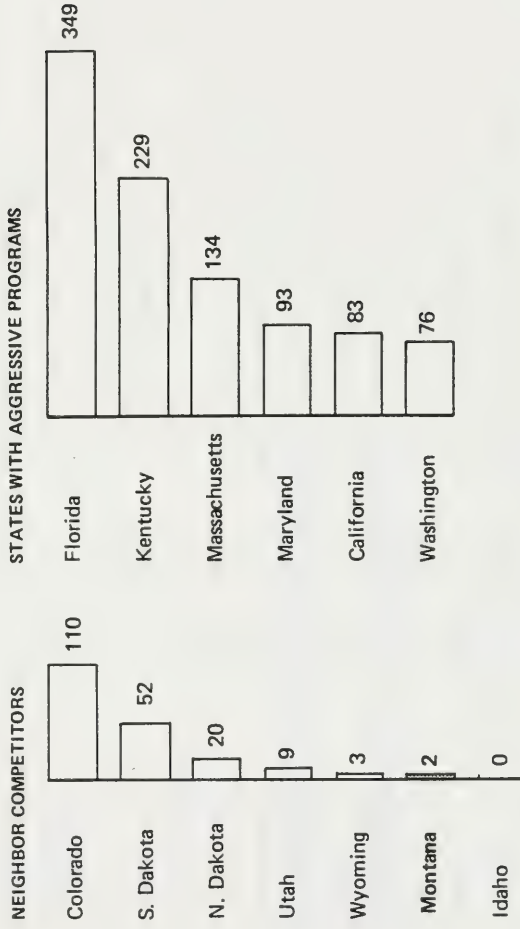
HARD ROCK

Continuing declines in existing jobs make net increases much less likely



Several states with aggressive programs recorded significant gains, even in 1981 - and most of Montana's neighbors did better.

NEW OR EXPANDED FACILITIES - 1981
\$0.5 million or greater



Source: *Industrial Development*, March/April 1982

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An assessment of job prospects indicated that, optimistically, Montana faces a primary job gap of 5,500 to 11,500 just to meet slow population growth and reduce unemployment to 5 percent

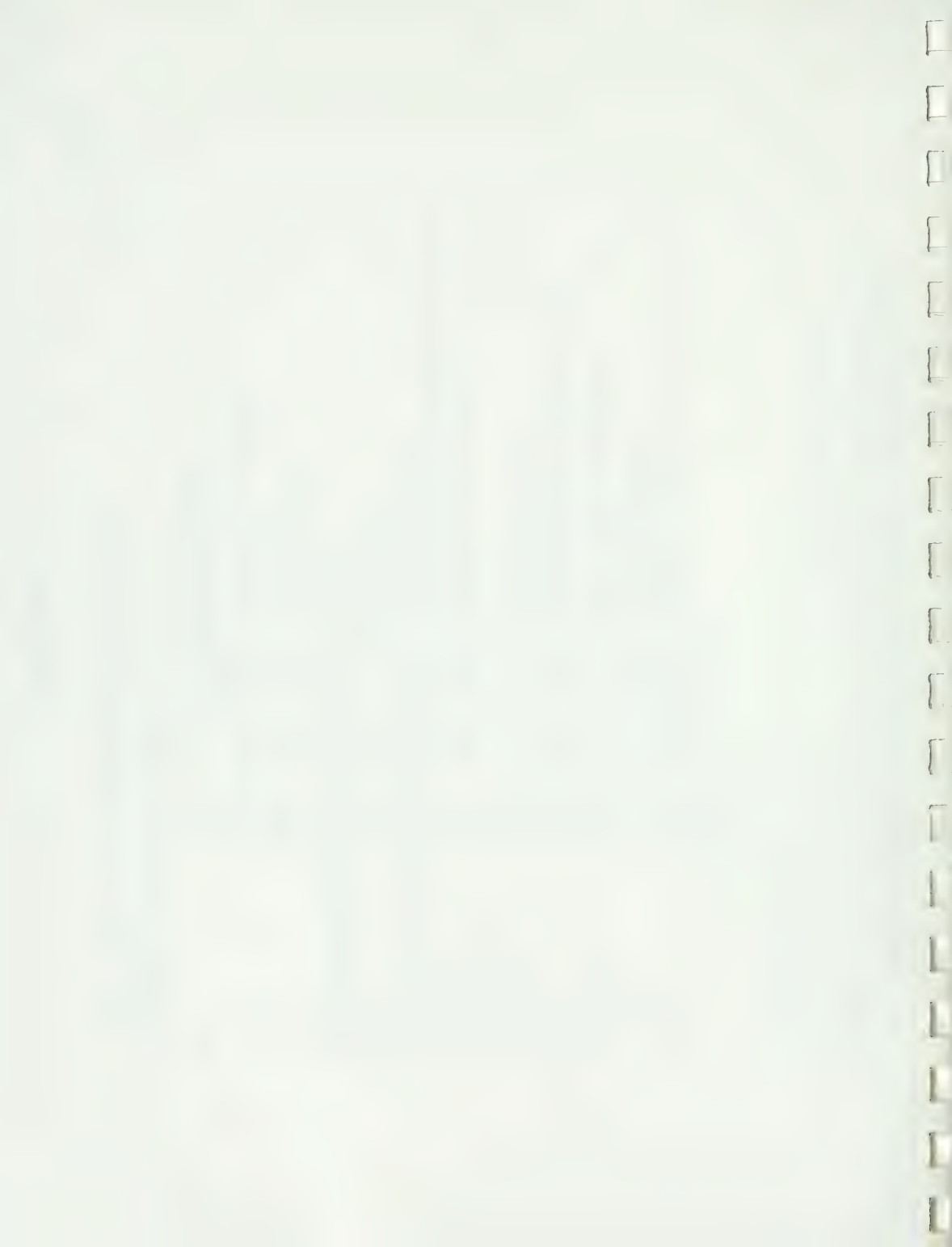
PRIMARY JOBS CREATION

Sector	Current number 1980	Year 2000 new	Adjusted number*	Comments
Agriculture	34,600			Cash receipts and net farm income the revelant factors
Metal Mining	1,900	1,500	2,350	Assumes 4 new mines—vs. 8-year downtrend
Nonmetal mining	800			
Coal	1,400	3,000	5,300	Assumes 63 million tons in 1990, 100 million in 2000
Oil and gas	4,600	500	700	Assumes Overthrust activity
Heavy construction	3,800	0	0	
Wood products	9,100	1,800	2,300	Assumes recovery to peak 1979 levels
Primary metals	1,900	700	1,000	Assumes major expansion or new facility—versus recent declines
Food products	4,100	?	?	Could be zero, even long term
Refinery	1,000	0	0	No new facilities
Other manufacturing	6,700	?	?	What kinds?
Rail	7,400	500	900	To support coal growth
Federal	22,900	0	0	Has been declining
Tourism**	10,200	6,000	5,000	Estimated 60% increase in tourist-days
Total	110,400		17,550 vs. 23,000 required	

* Adjusted by income index to "average" basic jobs

** Non-resident travel

Source: U. S. Bureau of Economic Analysis, Western Analysis, McKinsey Analysis



Montana will need 23,000 to 29,000 more basic jobs by the year 2000 to reduce unemployment to 5 percent and support growth for the existing population at a 0.6 percent annual rate.

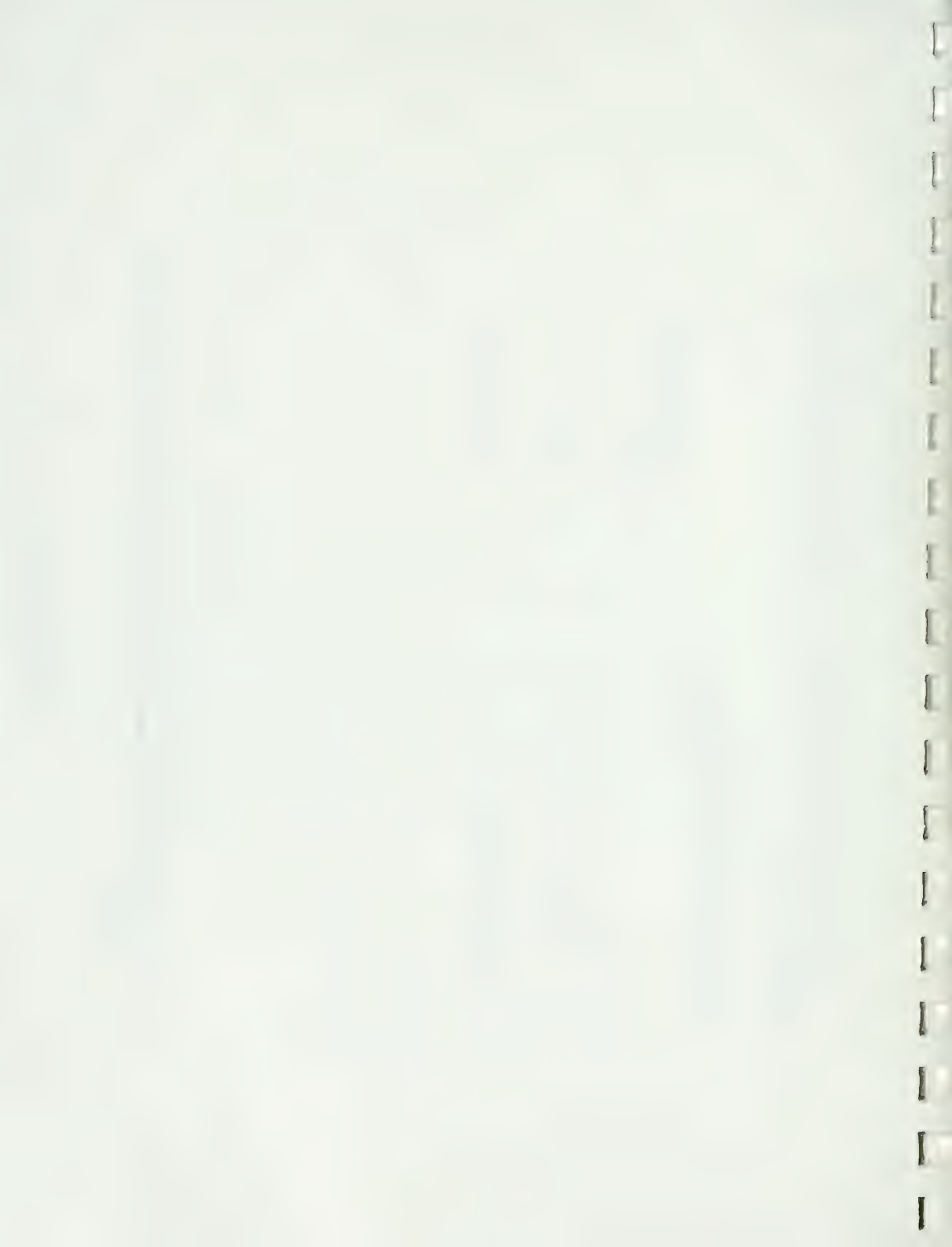
BASIC EMPLOYMENT REQUIREMENTS

BASIC EMPLOYMENT

Current	110,000
Needed to reduce unemployment by one-half	9,000*
Needed to support population growth to year 2000	14,000 to 20,000**

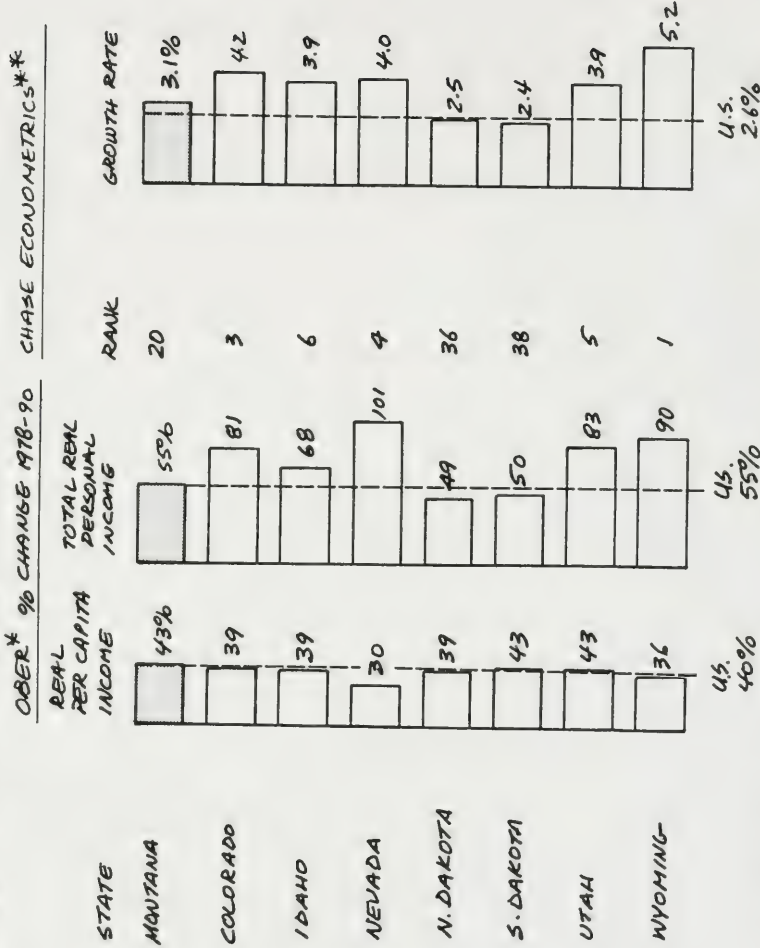
* Assumes basic job multiplier of 2.4; 43,000 currently unemployed

** Assumes basic job to population multiplier of 5-7; population increase of 100,000 expected.



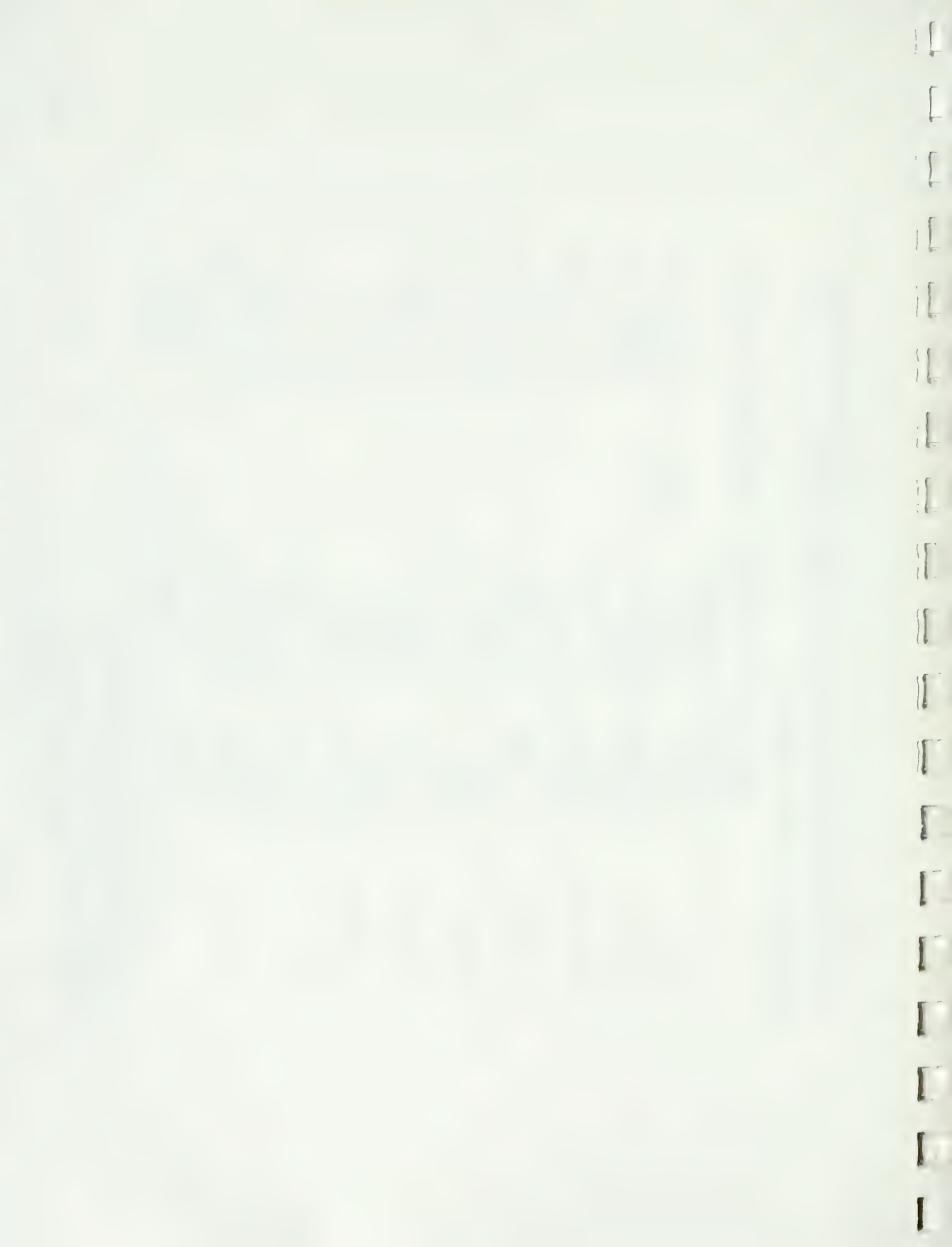
Independent observers do not believe the fundamental, relative trends will change - Montana's prospects for economic development are below its neighbors.

FORECASTS OF FUTURE GROWTH



* U.S. Department of Commerce, Bureau of Economic Analysis, July 1981

** Chase Econometrics, 1989, based on growth in real personal income, 1978-88





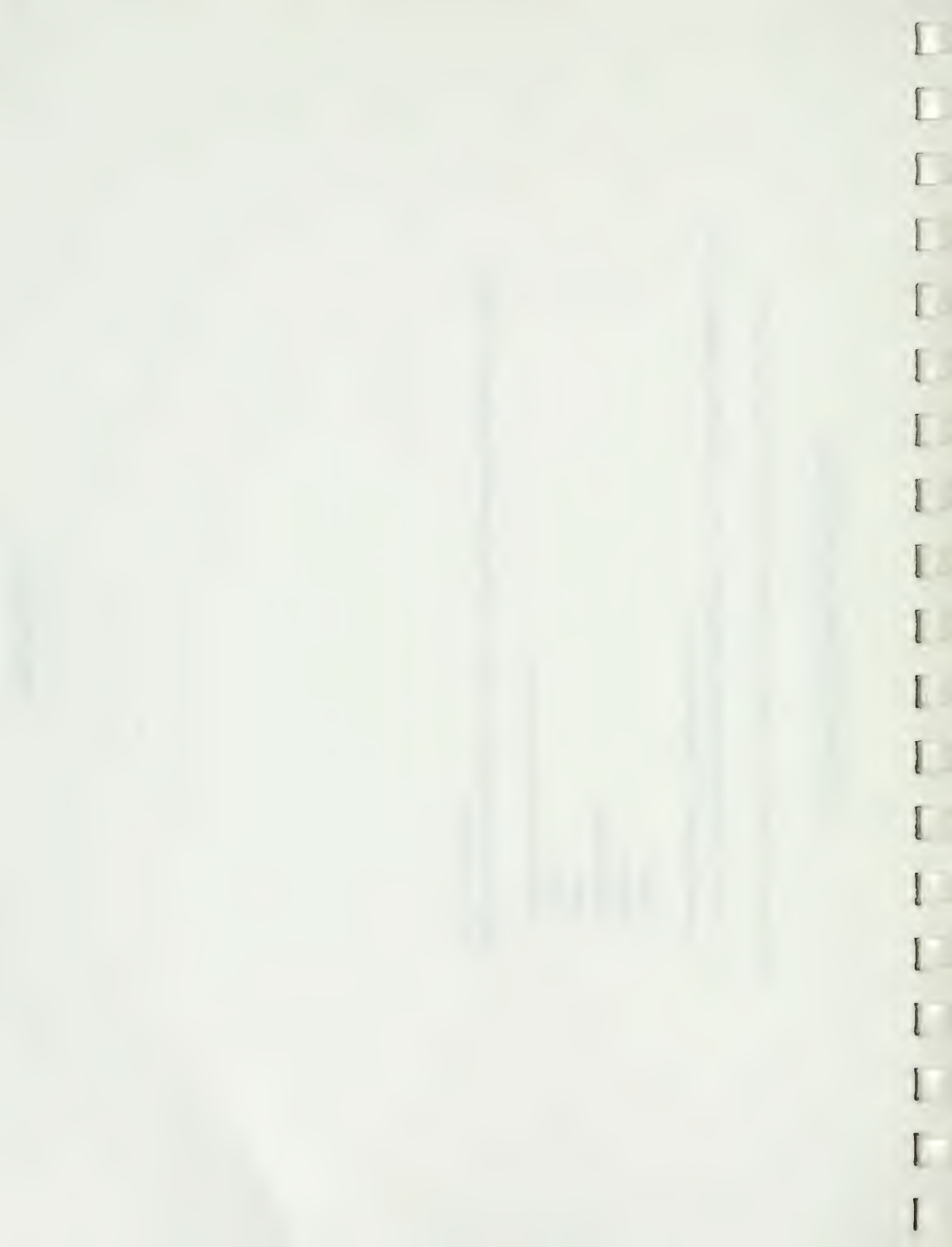
4 - MONTANA'S ECONOMIC BALANCE SHEET

This review of Montana's strengths and weaknesses yielded two major conclusions:

A. A review of Montana's economic development "assets and liabilities" suggests it is not "poised for growth." The factors are:

- Markets
- Supplies
- Transportation
- Labor
- Capital
- Public Policy (Section B below)

B. Montana could be doing much more to encourage economic development - and, in fact, will need to.



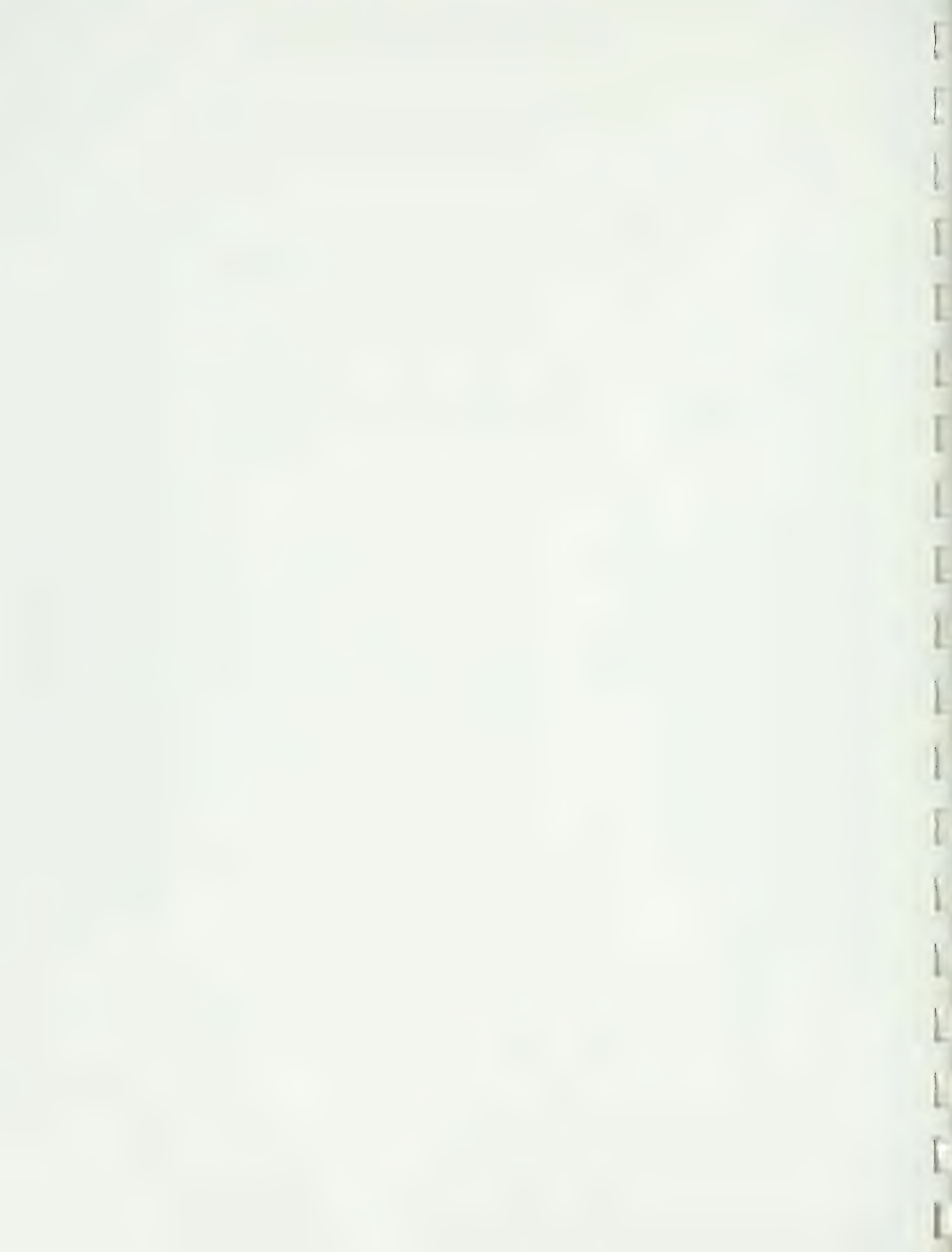
A. MONTANA NOT POISED FOR GROWTH

Third-party observers of various aspects of economic development generally do not view Montana as being as hospitable as its neighbors

PERCEPTIONS OF MONTANA

	<u>Business Climate Ranking¹</u>	<u>Small Business Environment²</u>	<u>Living Conditions³</u>	<u>Rank of 277 SMSA's</u>
		<u>Readers</u> <u>Editors</u>		
Montana	28	C B	Billings Great Falls	125 215
Colorado	3	B A	Colorado Springs Denver Fort Collins	159 16 200
Idaho	14	A A	Boise	119
North Dakota	5	A A	Fargo	116
South Dakota	11	C B	Sioux Falls	87
Utah	23	C C	Provo-Orem Salt Lake City	167 44
Wyoming	22	D C	N/A	

- Sources: 1. General Manufacturing Business Climates of the Forty-Eight Contiguous States of America, Alexander Grant & Co., 1981.
 2. INC, "Readers Rate Their Own States", February 1982, scale of A-D.
 3. Places Rated Almanac, 1981, 277 SMSA's.

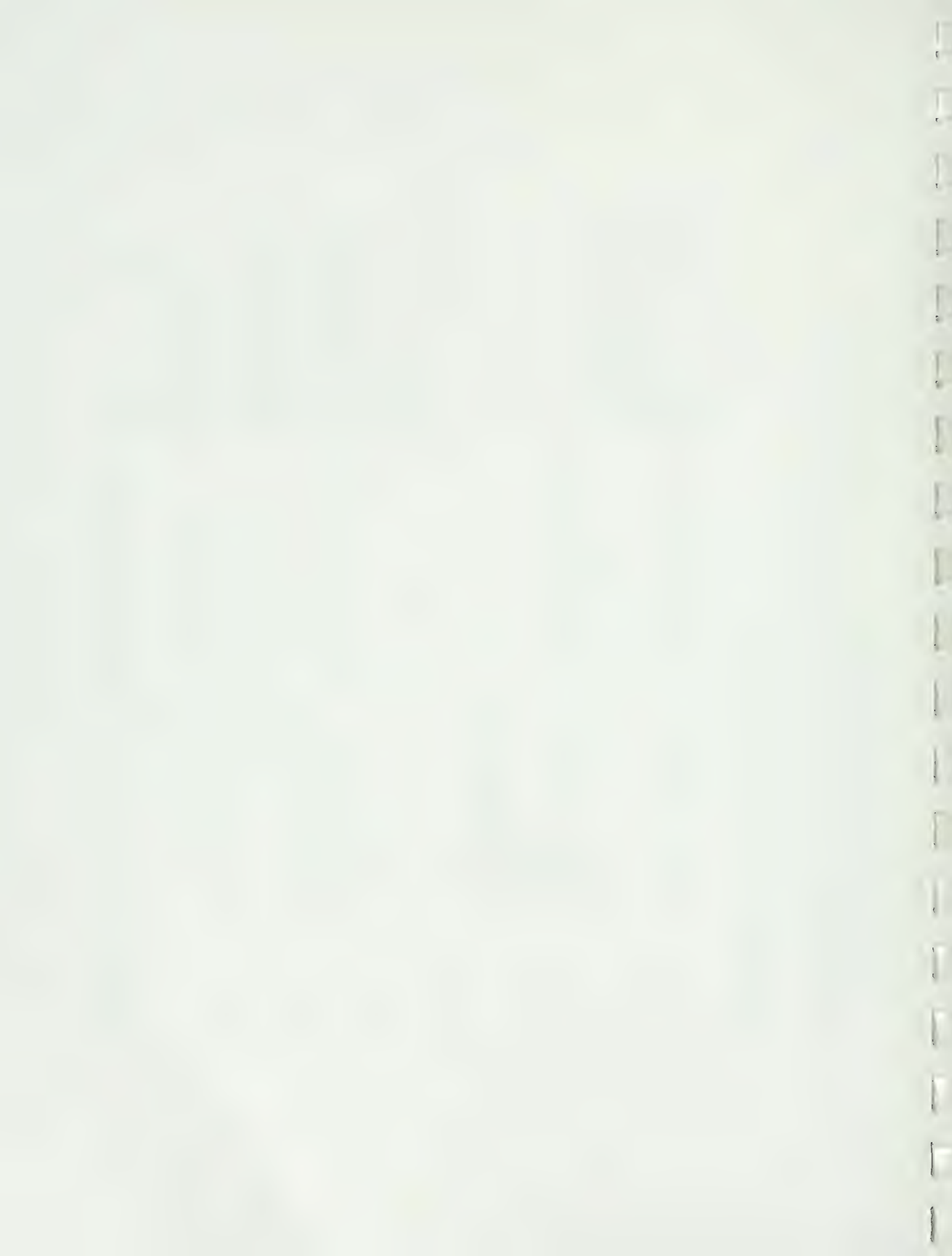


Montana's "balance sheet," suggests that Montana has development strengths in resources, but that, overall, the state is not poised for growth.

MONTANA'S BALANCE SHEET—A BUSINESS VIEW

Area	Assets	Neutral	Liabilities
Markets			<ul style="list-style-type: none"> • Remote from national and even regional markets • Few significant in-state markets not already reasonably satisfied
Supplies	<ul style="list-style-type: none"> • Natural resources* <ul style="list-style-type: none"> - Agricultural production - Timber - Water - Energy - Metals/nonmetals mining • Low electricity costs 	<ul style="list-style-type: none"> • Lifestyle variously an asset or liability, depending on observer 	
Transportation			<ul style="list-style-type: none"> • Definite distance penalty—selected rate penalties • High transportation cost share in many traditional Montana "exports" • Most neighbors have right-to-work • Several regions have lower costs • Highest unionization in region
Labor	<ul style="list-style-type: none"> • High quality • Good record on time lost 	<ul style="list-style-type: none"> • Costs comparable to rest of region 	
Capital	<ul style="list-style-type: none"> • Possible public capital fund 		<ul style="list-style-type: none"> • Removed from money centers • Smaller banks, less specialized expertise in nonagricultural lending
Public policy	<ul style="list-style-type: none"> • Fiscally sound government 	<ul style="list-style-type: none"> • Policies more restrictive in some areas, less in others 	<ul style="list-style-type: none"> • Generally higher taxes for business than other states • Attitude perceived to be a problem

* Note, however, that Montana is not distinctively better than neighboring or competitive states in most of these resources. Montana is generally fourth—sixth in national production



Markets

Montana is at least 500 miles further from major markets than any other state in the U.S. National and even regional population and market centers are far away, relative to other western states. There are no significant regional markets within 500 miles, except Alberta.

MONTANA'S ACCESS TO MARKETS



Source: Road atlas



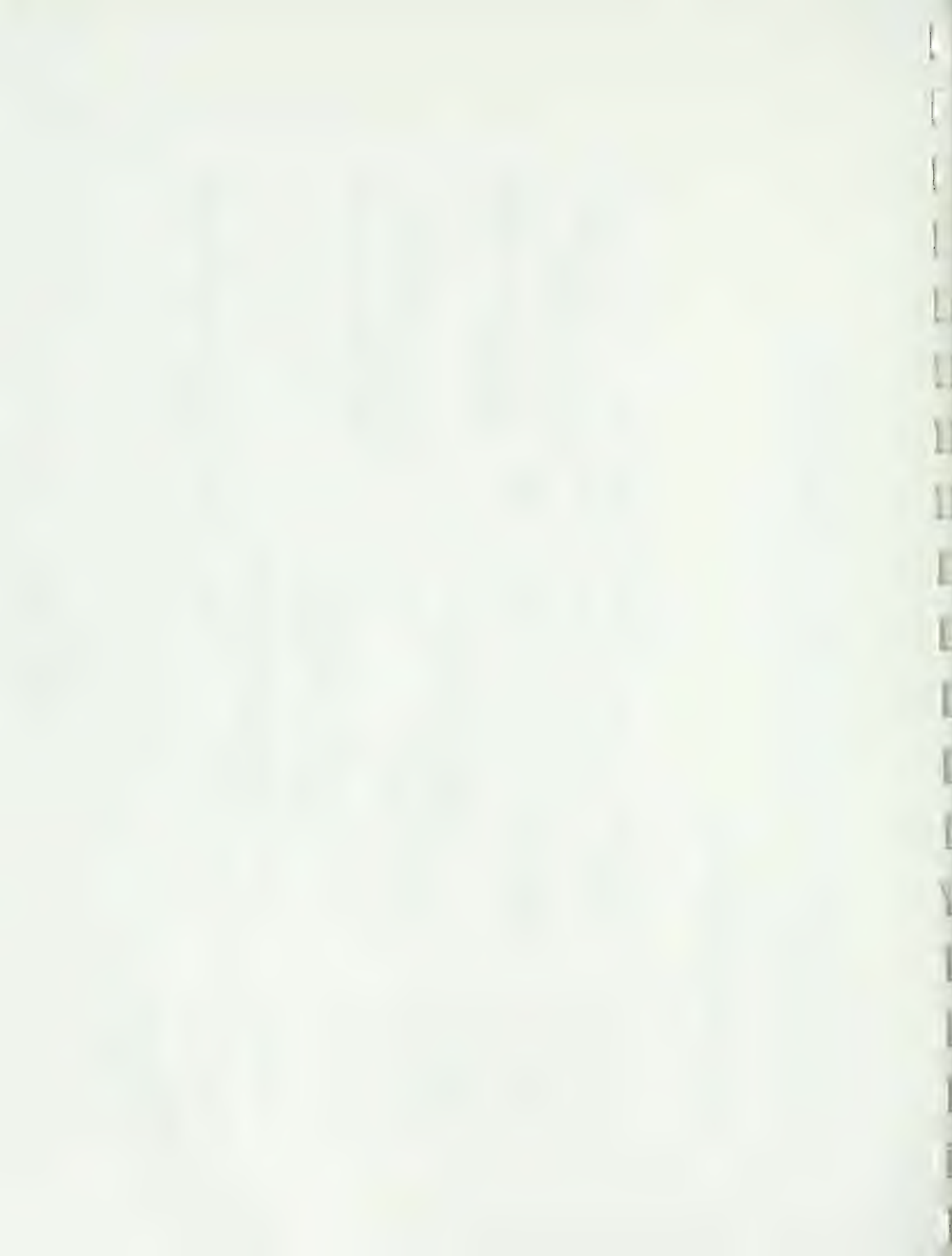
Montana may have a few underdeveloped in-state markets, but the potential appears limited and concentrated.

INSTATE MARKET OPPORTUNITIES

	Measures	JOBS		Issues
		Potential*	Actual	
Financial services	Per capita	8,200	7,300	No "gap" if Colorado—a regional finance center—excluded
Wholesale trade Insurance	Retail employment Per capita	19,100 4,500	17,800 3,400	"Gap" virtually disappears if Colorado excluded, as above
Mining/Drilling equipment	_____	Recent emergence of specialty rig assembler	_____	_____
Agricultural and ranch supplies	Fertilizer: \$50 - 70 million Feed: \$50 - 100 million	?	_____	Why have past efforts failed? (e.g., alfalfa pelletizing) Are raw materials locally available?
Machine tools	_____	Specialization and efficient scale considerations make comparison difficult	_____	_____
Paper products	_____	Efficient scale considerations likely make instate market irrelevant	_____	_____
Construction materials (stone, clay, glass)	Construction employment	1,700	1,300	Activity highly dependent on location of resources

* Based on experience in neighboring states

Source: U.S. Bureau of Economic Analysis, McKinsey analysis



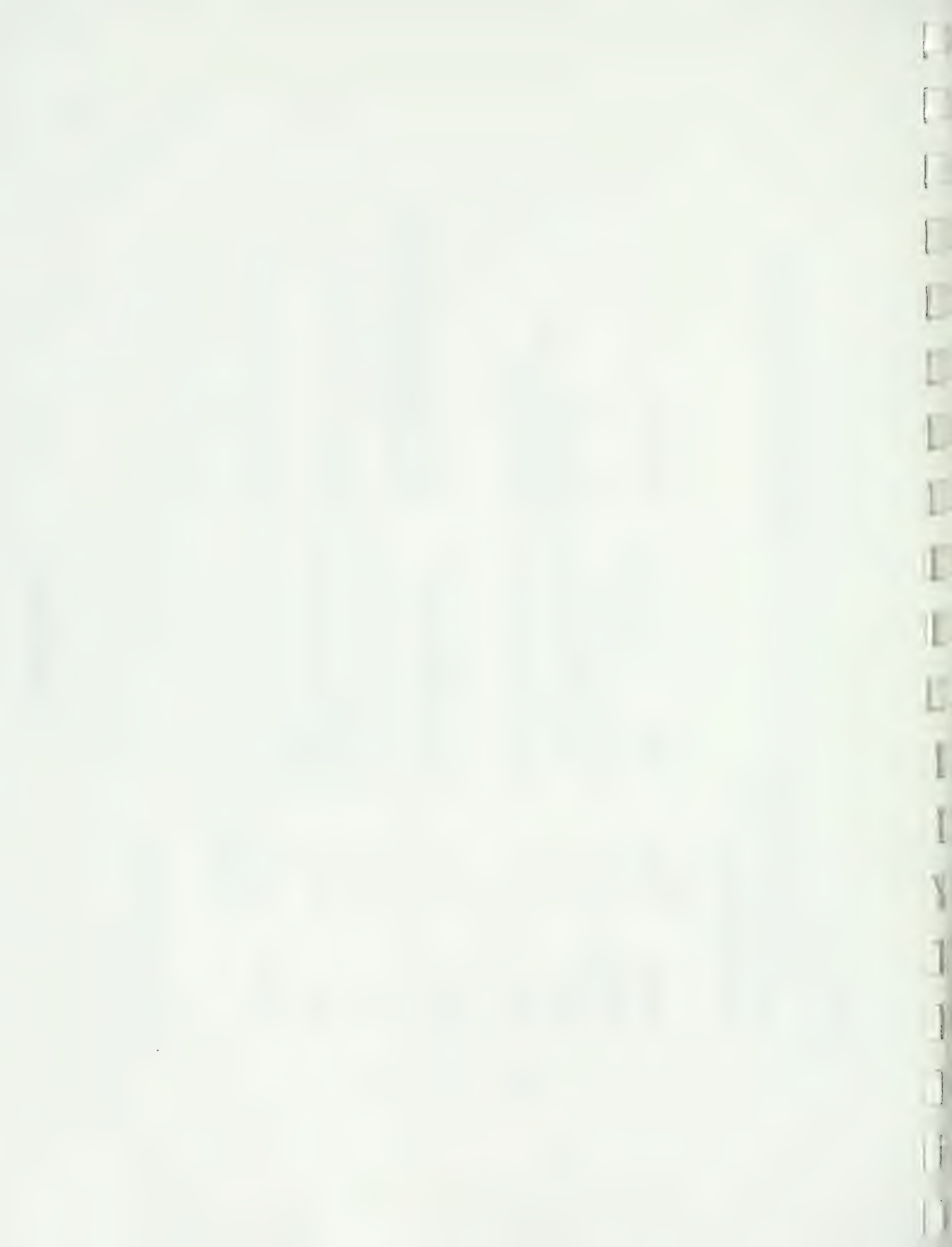
Supplies

Montana has strong positions in selected resources - although there are relatively few in which it is a dominant influence.

MONTANA RESOURCES

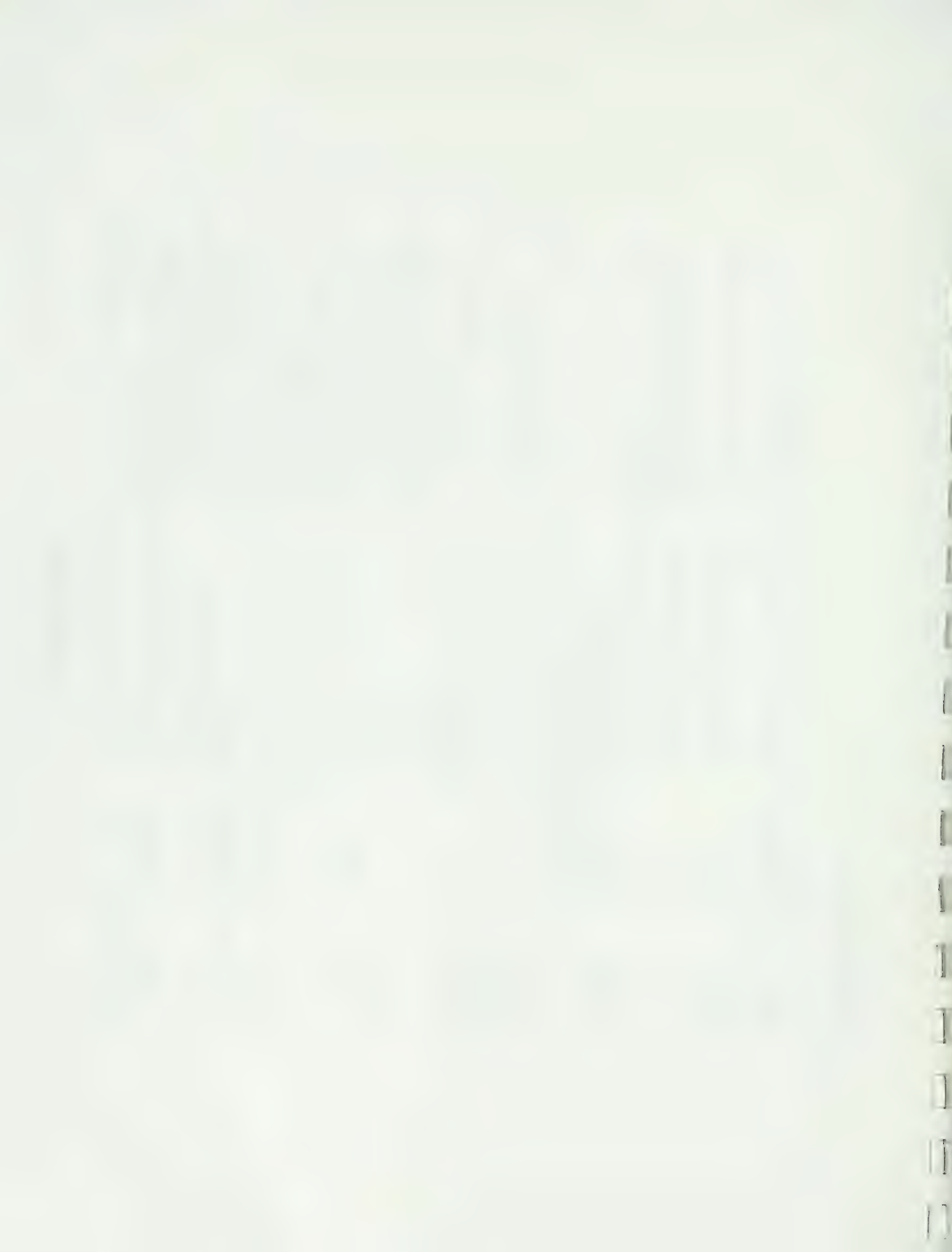
<u>Resource</u>	<u>Value \$ Millions</u>	<u>Rank</u>	<u>Competitiveness</u>
Agriculture			
Livestock	\$750	2% of U. S. production	High quality Alternate—year cropping Irrigation required
Wheat	450	6th—6% of U. S. production	
Barley	100	4th—12% of U. S. production	
Energy			
Coal	300	5% of national production	Medium quality, low extraction costs—but Wyoming better positioned for growth markets, and lower cost
Oil	650	Minor—less than 1% of U. S. reserves	
Gas	75	Minor—less than 0.5% of U. S. reserves	Activity level somewhat sensitive to price
Electricity	75 (exported power)	n.a.	On a par with other Western coal burning states

Source: Various published sources



MONTANA RESOURCES

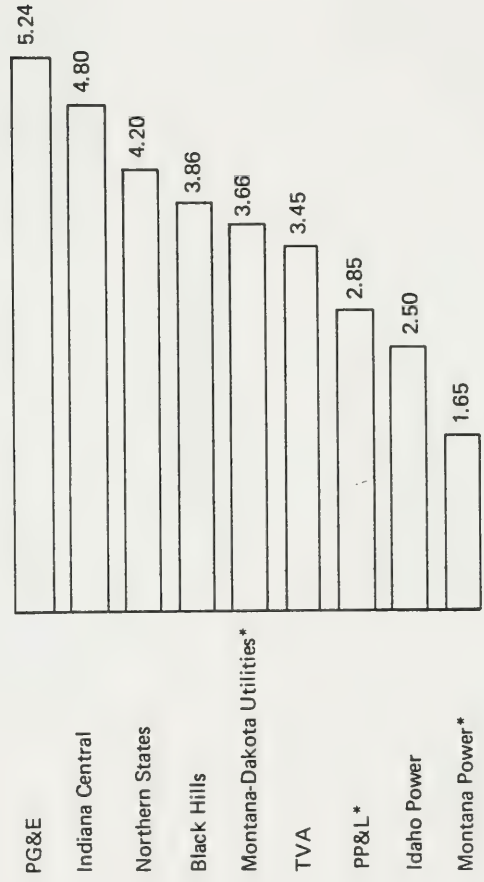
Resource	Value \$ Millions	Rank	Competitiveness
Metals			
Copper	\$100	Minor—3% of U. S. production	May be marginal producing region
Gold	30	4th—3% of U. S. production	Largely by-products of copper mining, but small mine operations increasing
Silver	40	5th/6th—6% of U. S. production	
Others	Molybdenum getting increased attention Reserves of high-value strategic metals No iron/steel activity in state		
Nonmetals			
Bentonite	\$ 20	2nd—15% of U. S. production	One of few U. S. reserves
Renewable			
Timber	350	Medium—< 10% of national reserves	Timber industry undergoing significant change Montana has longest growing cycle
Water	?	n.a.	Headwaters for major river flows
Tourism	600	n.a.	"Bridge state" for Midwest to West Coast Attractions appeal to specific groups of tourists
R & D			
Agriculture	100 + staff	Medium	Focused on production/yields
Mining	40 staff	Comparatively small	Quality of graduates high—research program reputation unclear
Forestry	30 staff	Unclear:	Major centers may be corporate, particularly for applications
Energy/MHD			State-of-the-art



Montana electricity rates for industrial users are lower than in other neighboring states - potentially a major attraction.

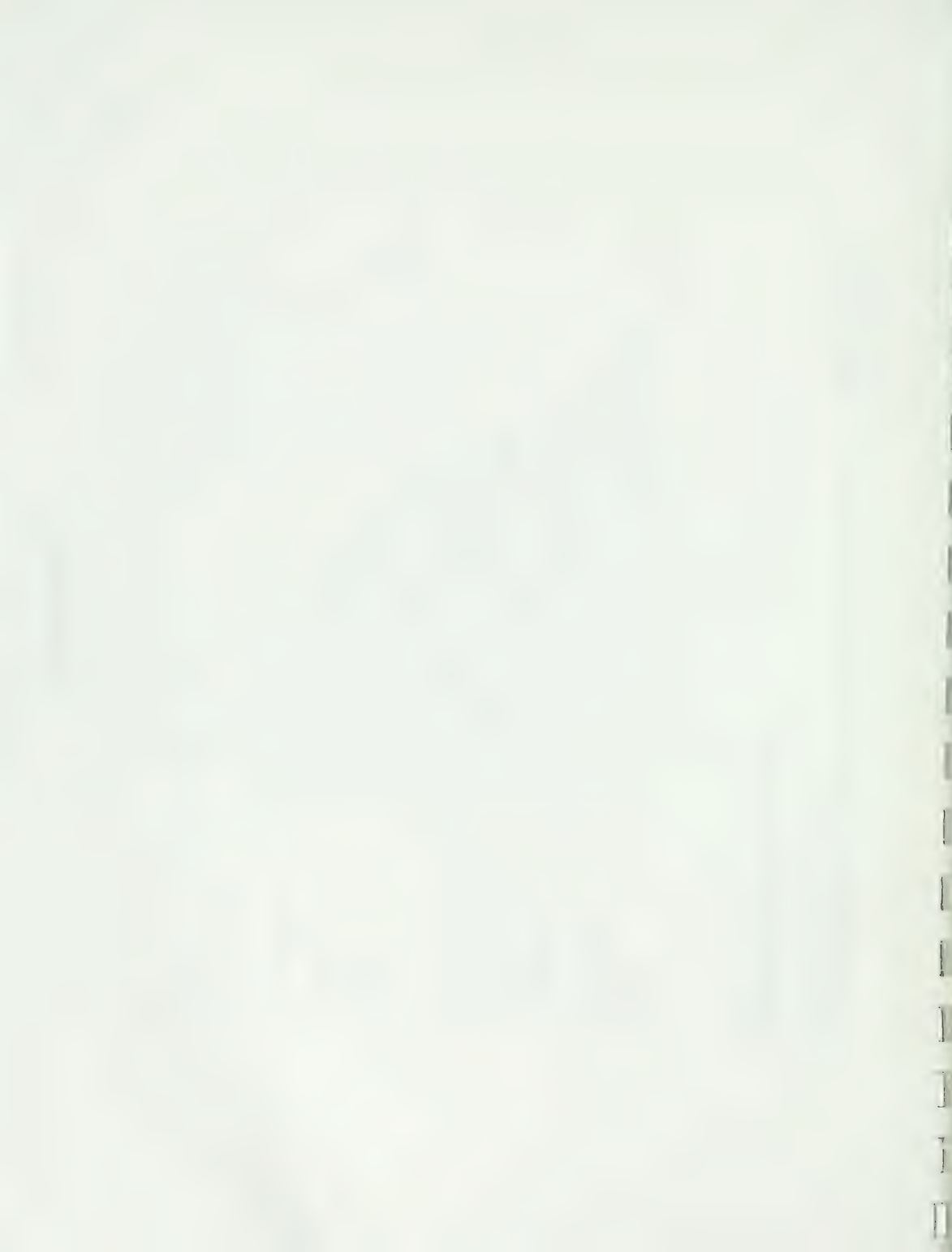
INDUSTRIAL ELECTRICITY RATES

¢/kwh



* Operates in Montana

Source: Montana Public Service Commission



Montana's lifestyle has some universal assets – but is, net, an asset or liability depending on what an organization is seeking. And it varies considerably by region within the state.

PROS AND CONS OF LIFESTYLE

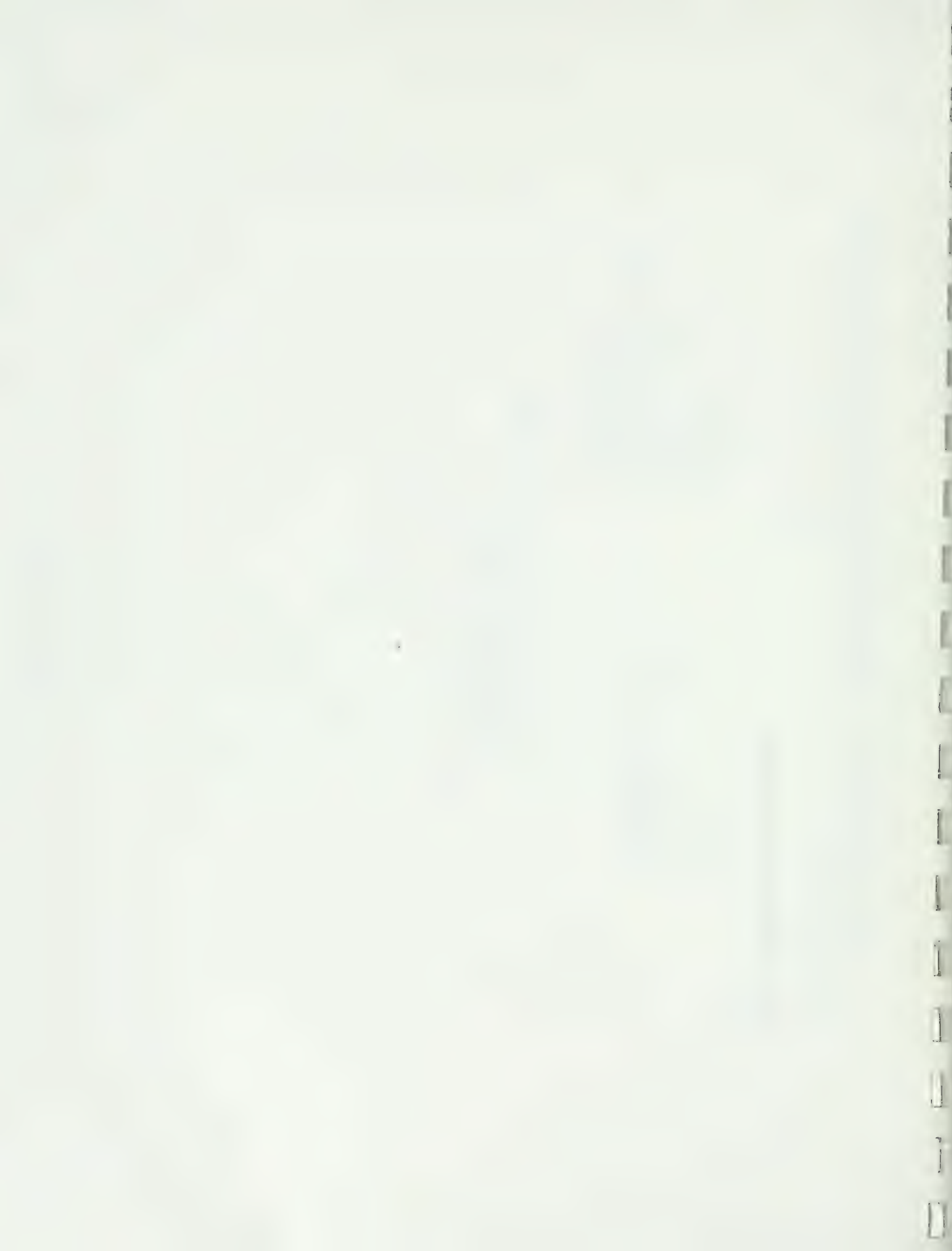
ASSETS

Low crime
Recreational opportunities
Natural beauty

LIABILITIES

Climate (as generally perceived)
Less availability of advanced health care facilities
Less business services

Remoteness from other population centers
Less cultural activities
Specific climate attributes

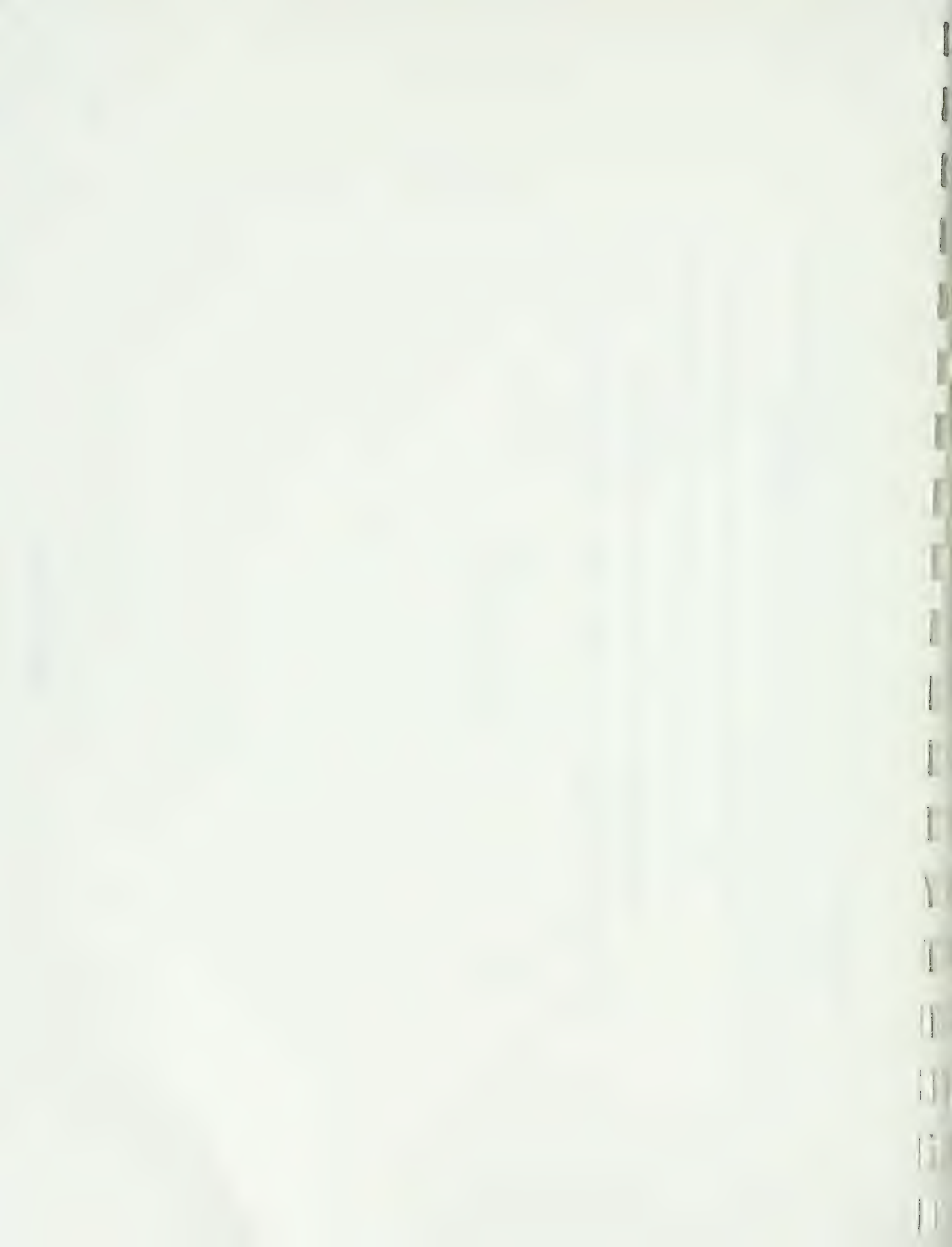


Transportation

As noted earlier, Montana is at a distance disadvantage relative to markets. Concerns over high transportation rates, as well, were voiced by many businessmen.

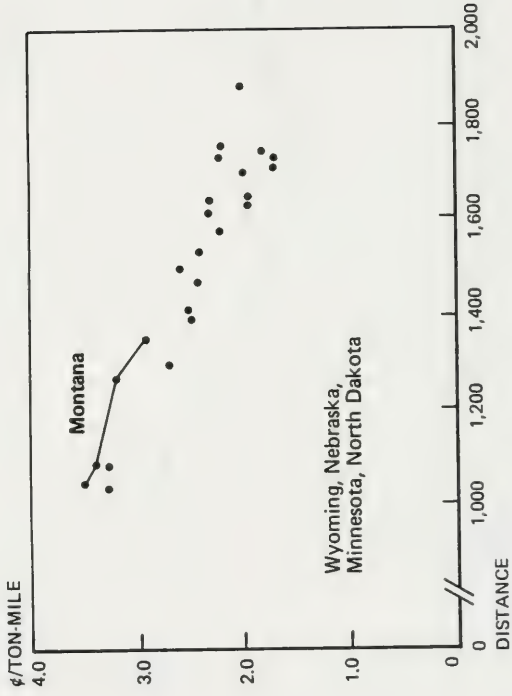
- . "We pay \$0.17 per pound here for air transportation - versus \$0.09 in Salt Lake."
- . "Why does my competition pay \$4.45/cwt coming West and I pay \$9.95 going East?"
- . "We practically gave the stuff away, but couldn't afford to ship it."

A basic review indicates some rates may indeed be higher - for whatever reasons.

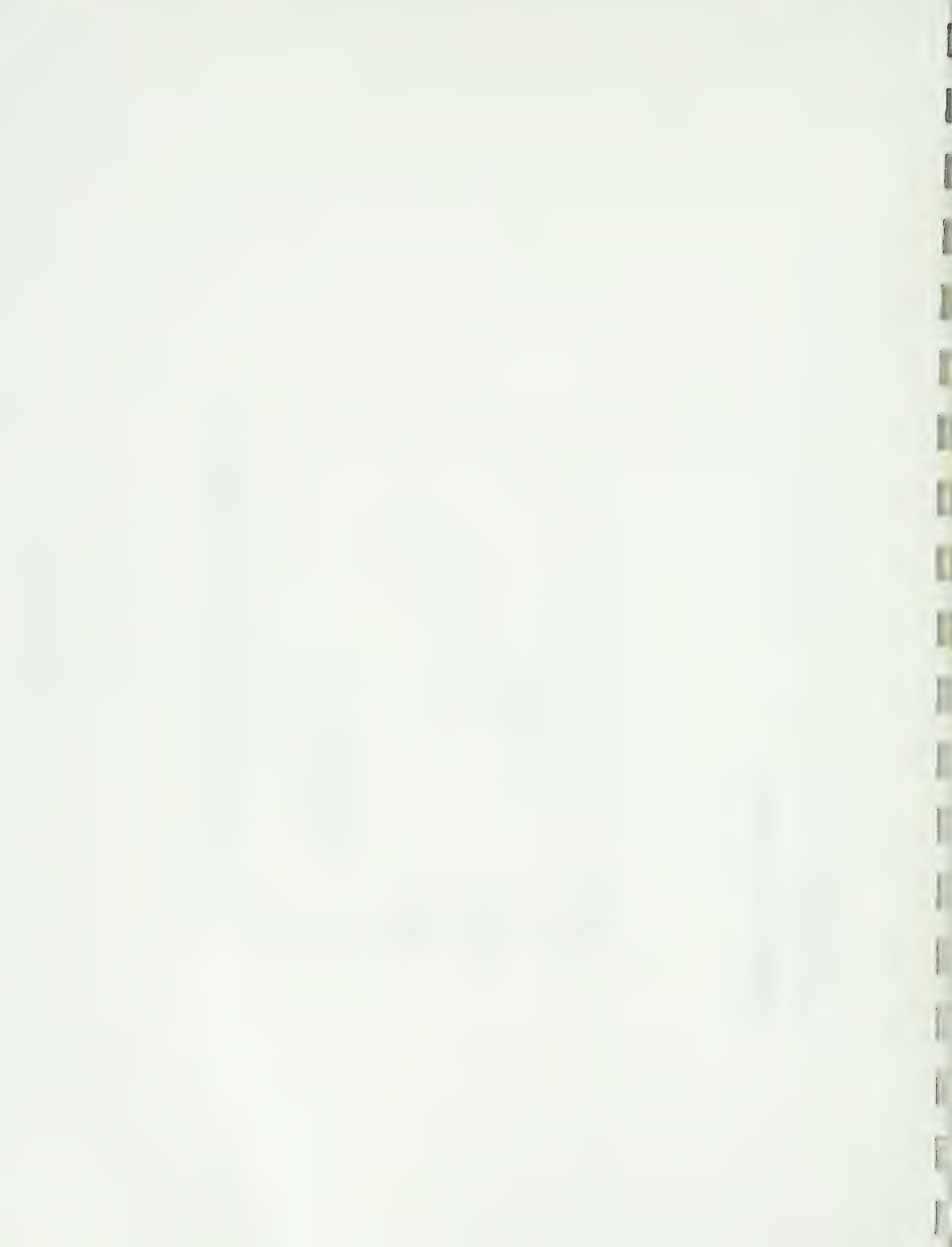


Montana farmers argued successfully that their rail rates are 5 to 10 percent higher than those in other states.

GRAIN RATES TO PORTLAND

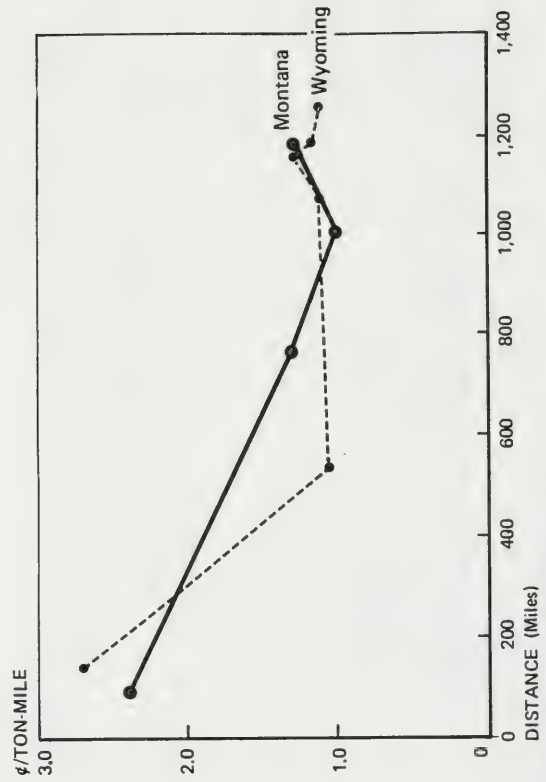


Source: McCarty Farms case

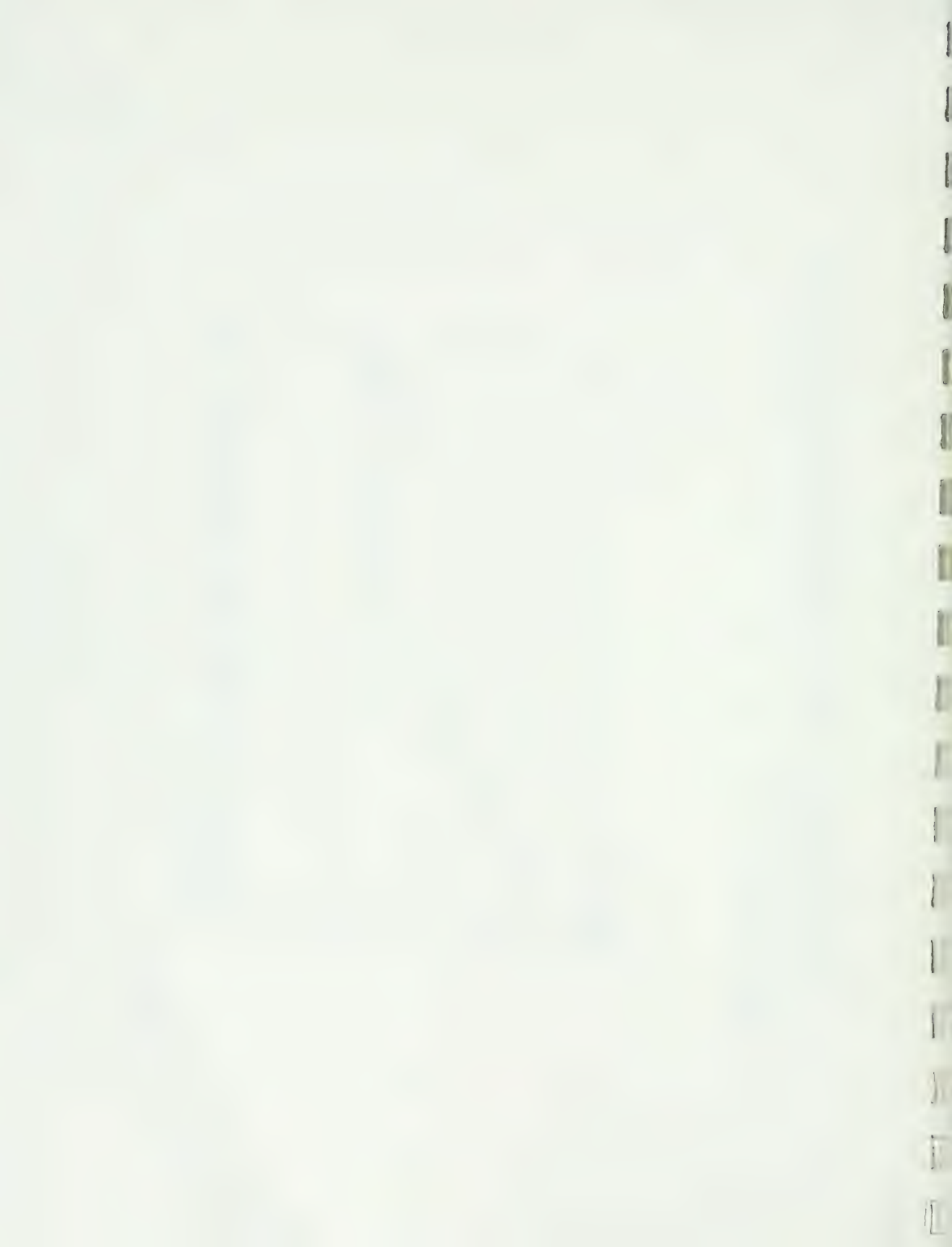


Coal transportation rates are usually set in long-term contracts, and escalate with costs. There did not appear to be persistent differences in coal from Montana versus Wyoming.

COAL RATES PAID 1979



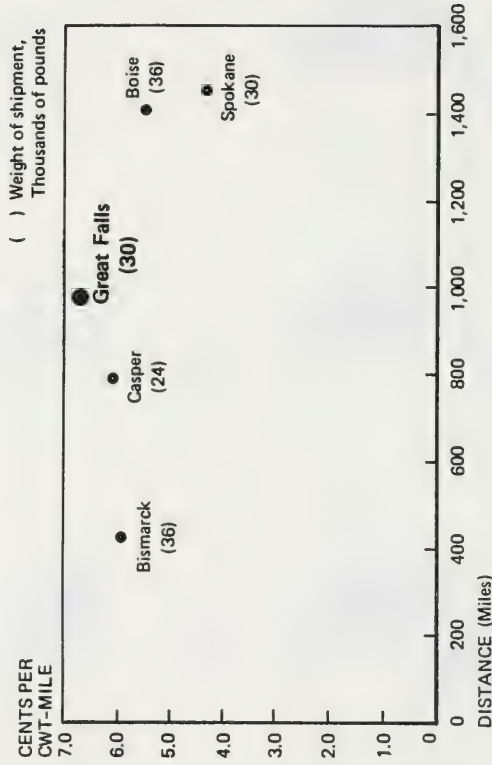
Source: *One-Percent Railroad Statistics, 1979*



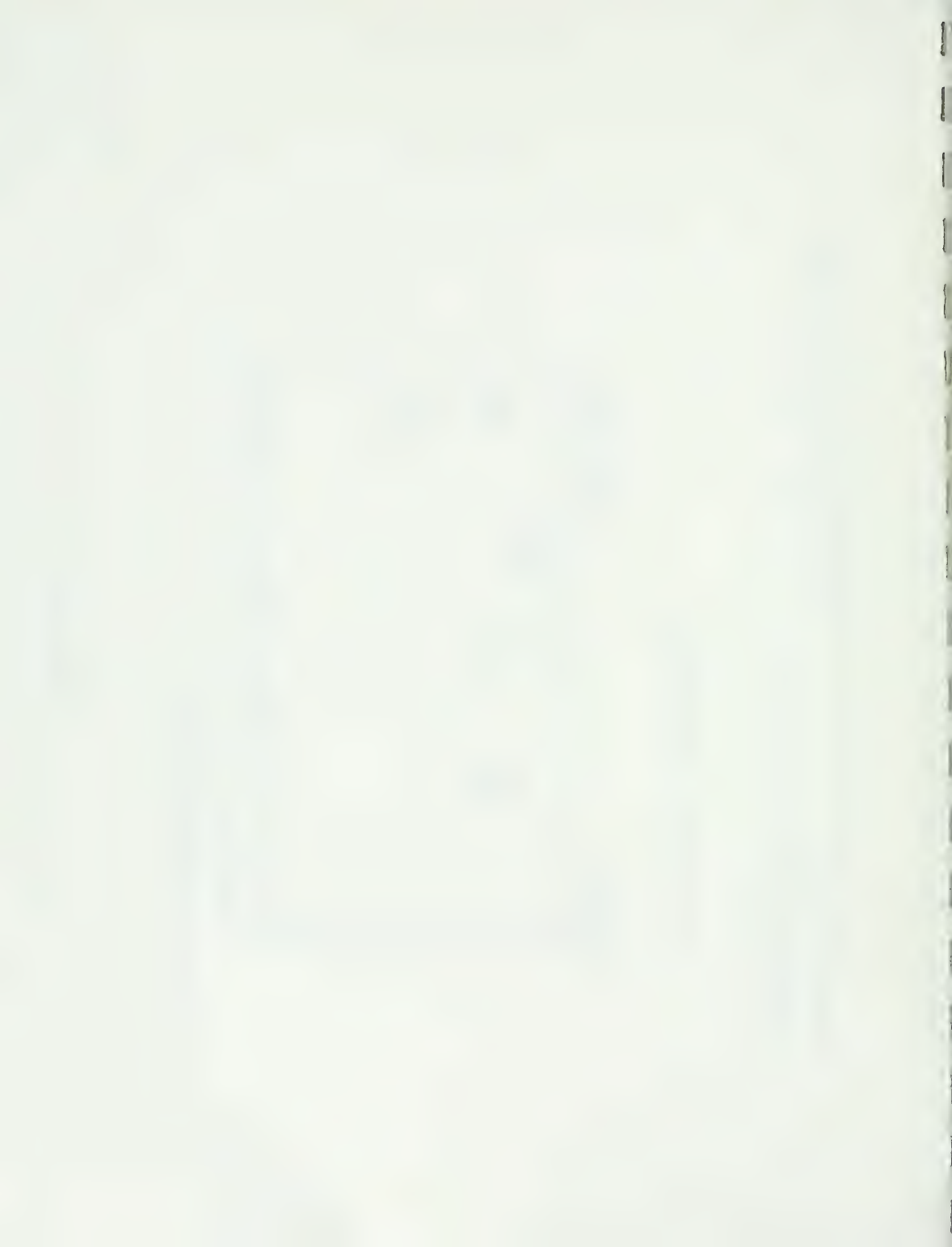
In a random but realistic example, inbound truck rates were found to be high, even after adjusting for distance.

SAMPLE TRUCK RATES—FROM MINNEAPOLIS

CLEANING COMPOUNDS, LOWEST TARIFF RATE

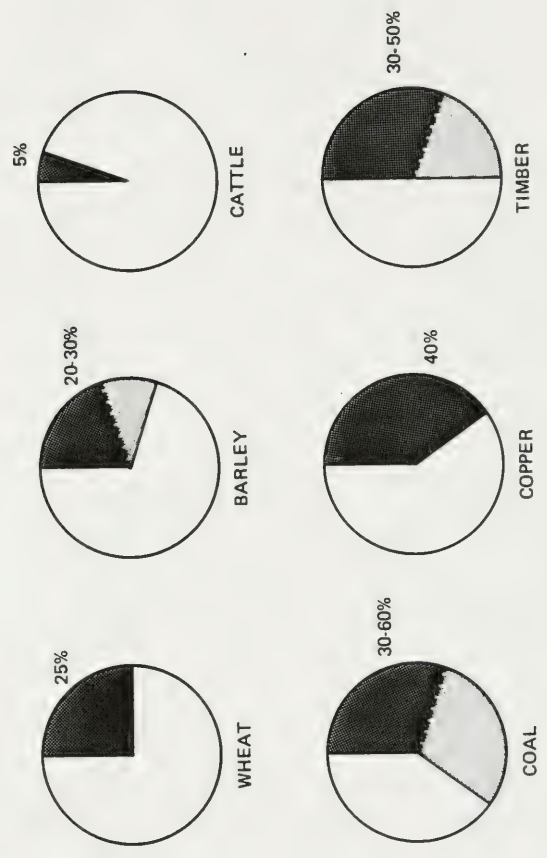


Source: Rocky Mountain, Midwest Motor Rate Bureaus

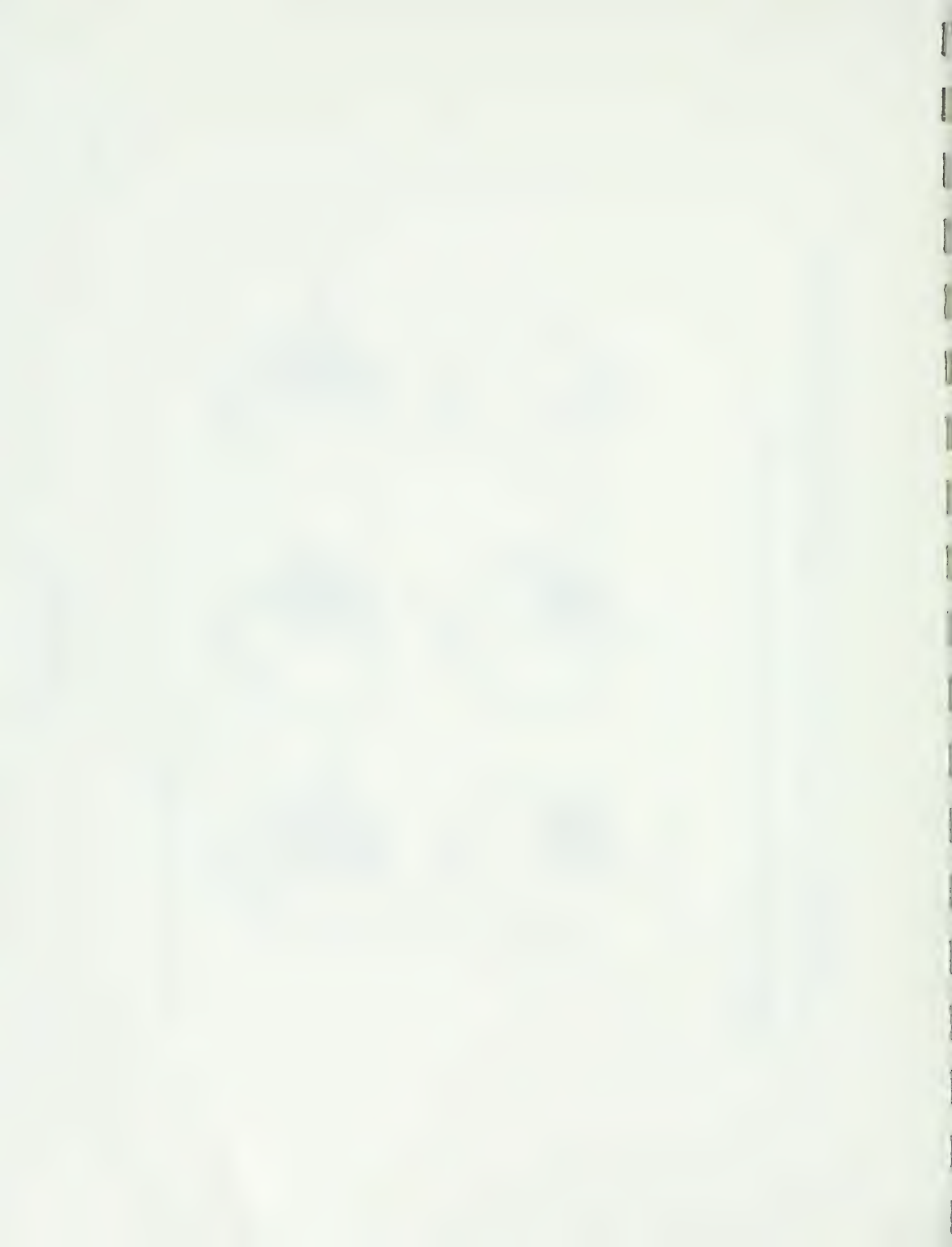


Any transportation cost disadvantage is particularly damaging because transportation costs are such a large percentage of value for many of Montana's basic exports.

PERCENT TRANSPORTATION COSTS FOR MONTANA'S BASIC INDUSTRIES
Percent of market value



Source: Industry sources, McKinsey analysis

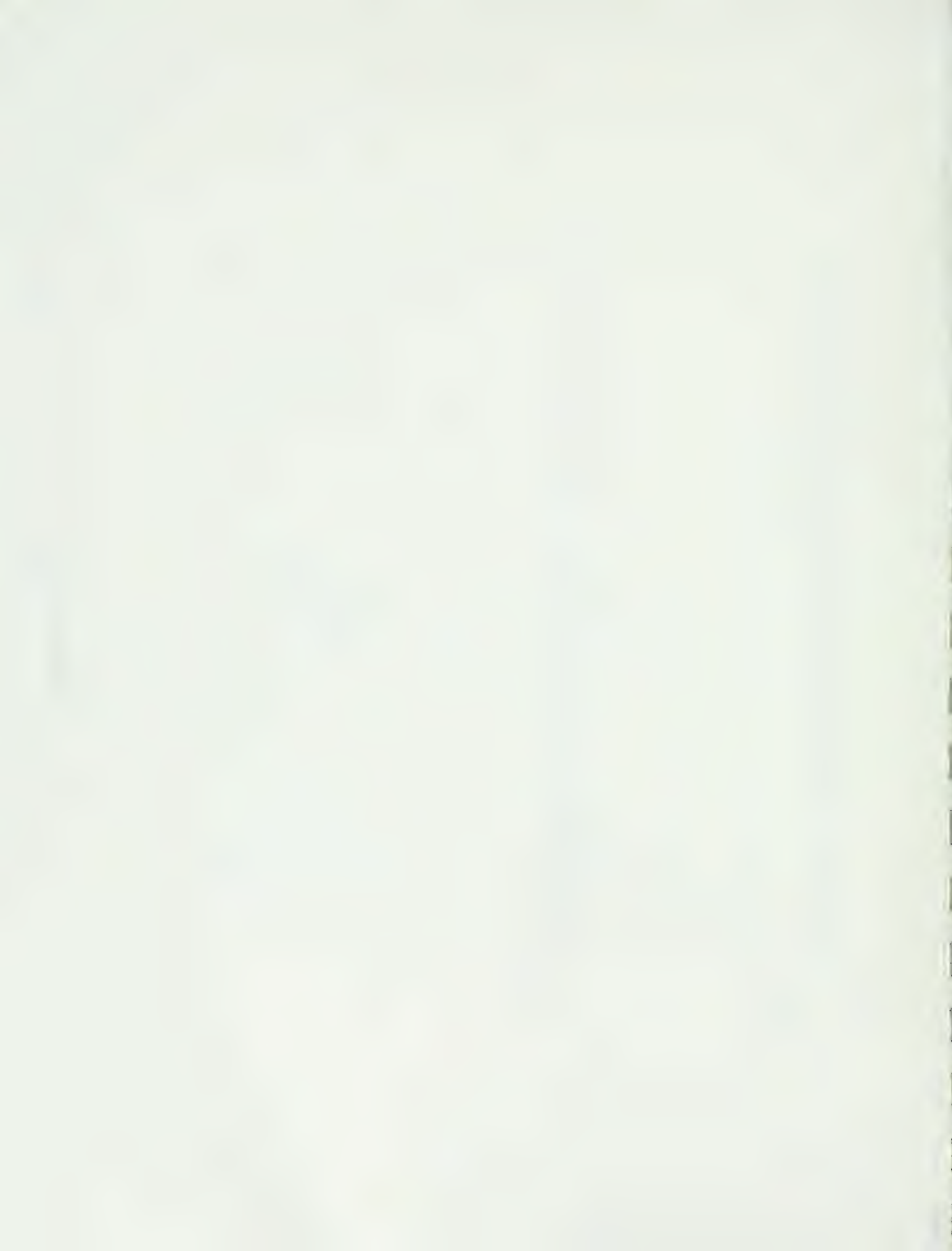


Labor

Labor, because it is so important to a business's success, is reviewed in at least four areas:

- Availability
- Costs
- Productivity
- Unionization

Overall, Montana is not significantly different from neighboring states; southern states still offer wage (and availability) advantages.

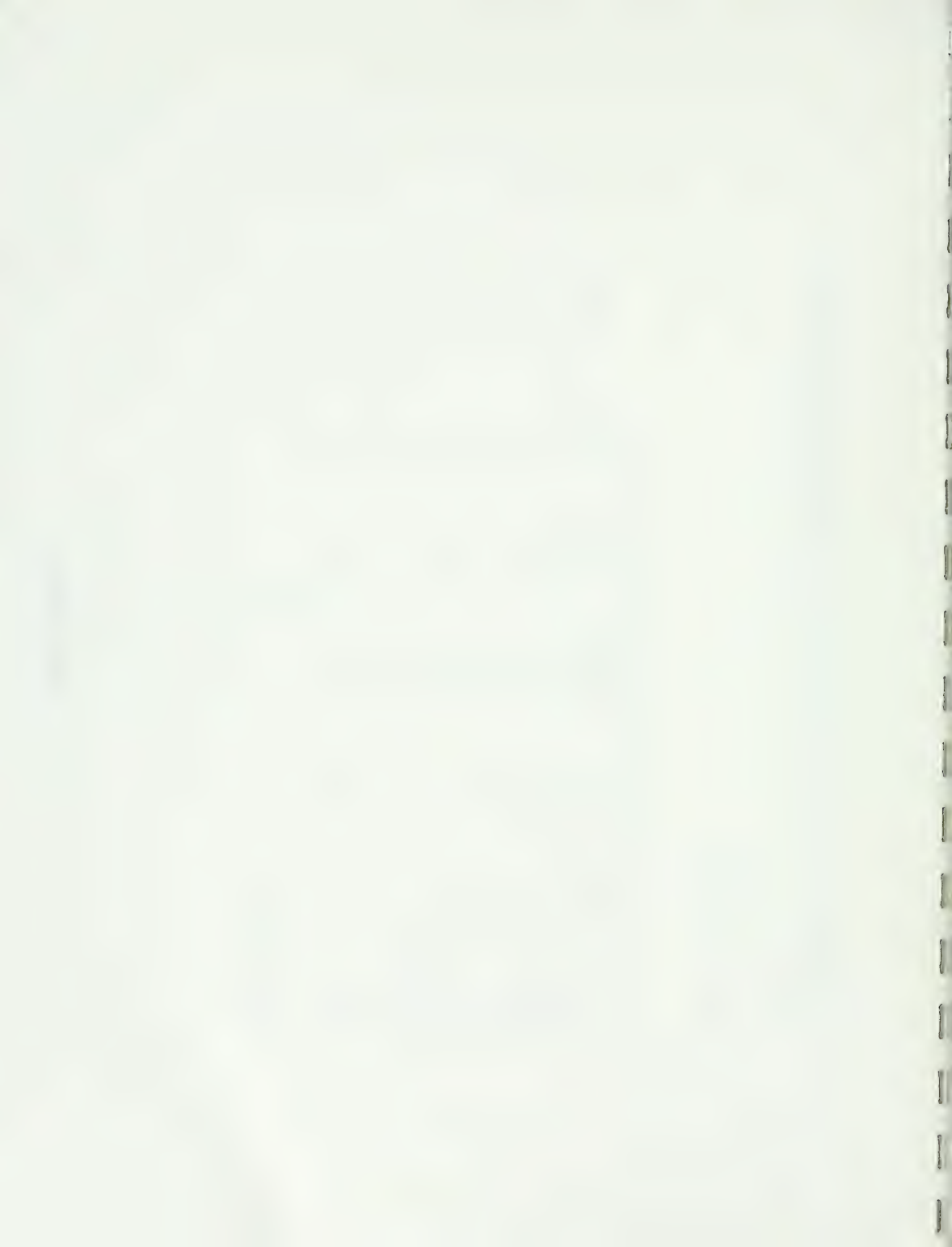


Montana has relatively few large labor pools. This may sharply reduce the likelihood of locating a large-scale facility within the state - unless it is tied to a specific resource.

LABOR AVAILABILITY

State	TOTAL NUMBER OF COUNTIES WITH POPULATION GREATER THAN:					
	<u>10,000</u>	<u>25,000</u>	<u>50,000</u>	<u>100,000</u>	<u>250,000</u>	<u>500,000</u>
Montana	21	7	4	1	0	0
Colorado	30	12	10	9	4	0
Idaho	23	9	6	1	0	0
North Dakota	15	5	4	0	0	0
South Dakota	17	3	2	1	0	0
Utah	17	8	5	4	1	1
Wyoming	15	6	2	0	0	0

Source: 1980 Census

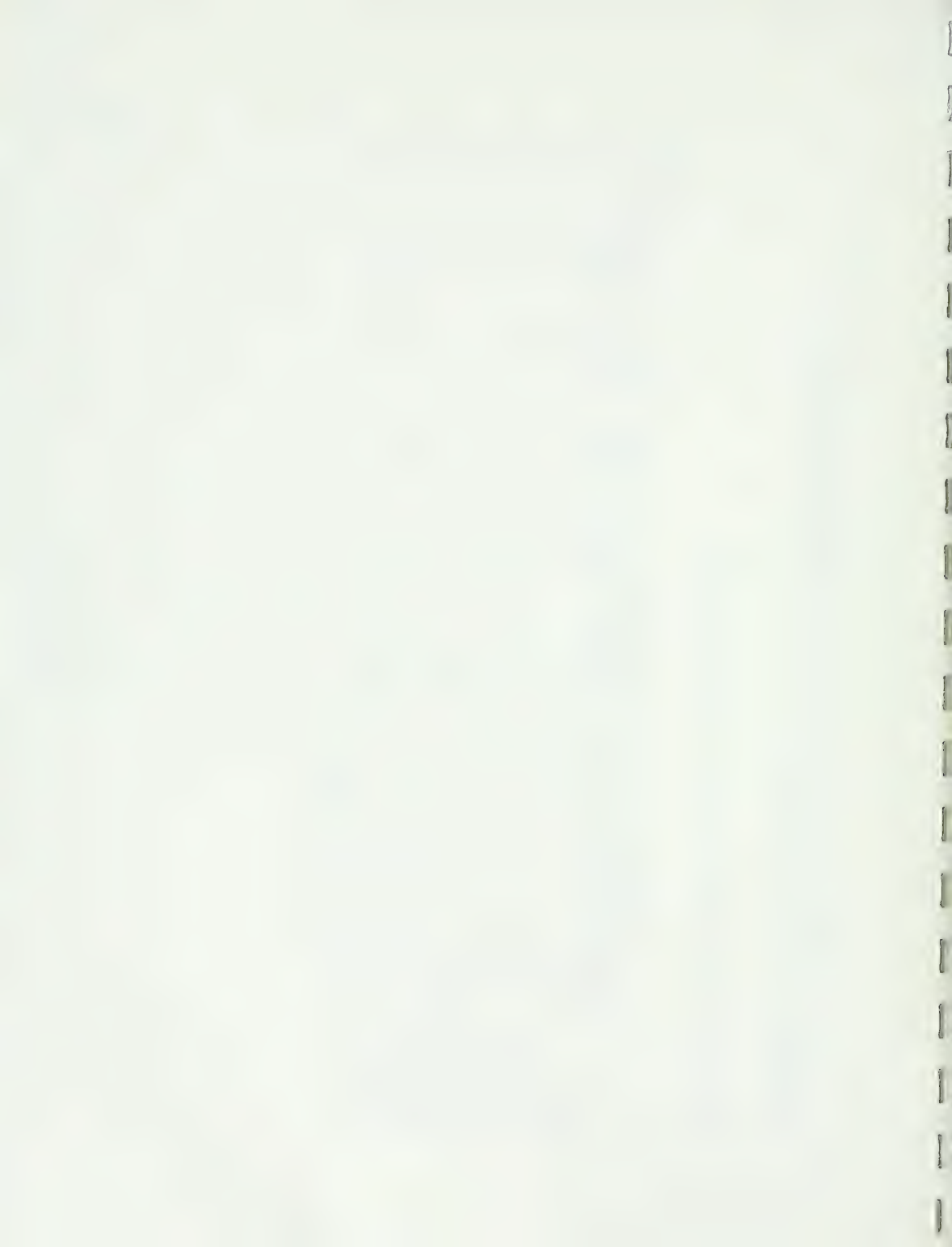


Montana wages are by and large comparable to those in neighboring states - but are generally higher than in New England and the South.

COMPARATIVE LABOR RATES - MIDYEAR 1980

	NEIGHBORS										MIDWEST			NEW ENGLAND		
	MONTANA		Cheyenne Wyoming		Eugene Oregon	North Dakota	Pueblo Colorado	Yakima Wash-Ore	Albany Georgia	Gadsden Alabama	Mobile Ala Fla	Waco Texas	Champ. Illinois	Salina Kansas	Upper Michigan	New Hamp.
Secretaries	5.80	5.82	7.40	5.76	7.08	7.72	5.55	6.03	5.78	5.01	5.36	6.02	5.42	5.60	6.38	
File Clerks	3.94	-	4.21	4.25	-	5.54	-	3.52	3.58	4.06	4.78	4.93	6.24	4.29	4.84	
Key Entry Operators	4.51	4.45	5.03	4.88	6.36	6.23	5.13	4.89	5.39	4.48	5.40	5.45	6.12	5.80	6.00	
Computer Operators	5.78	5.07	6.04	5.60	8.83	-	5.91	6.77	5.46	5.27	5.40	5.45	6.12	5.80	6.00	
Maintenance Carpenters	9.83	9.12	9.87	9.34	10.14	9.99	-	9.48	9.70	-	-	-	8.99	6.20	6.11	
Maintenance Mechanics	10.51	9.58	10.28	8.10	-	10.18	8.66	9.19	9.58	8.28	-	-	8.66	7.26	7.14	
Material Handling Laborers	7.34	6.40	8.02	5.55	7.98	8.56	6.78	6.00	5.34	5.01	8.74	6.34	6.14	4.65	5.28	
Forklift Operators	7.85	5.42	8.83	8.26	8.29	6.87	6.44	7.33	6.19	5.54	-	6.87	6.49	6.30	5.32	

Source: U. S. Department of Labor, "Occupational Earnings in Selected Areas, 1980"



Labor productivity is difficult to measure, as it varies according to mix of activities within an industry and the technological processes employed, but analysis suggests Montana productivity is good - and interviews confirm this.

VALUE ADDED PER EMPLOYEE

\$/production hour

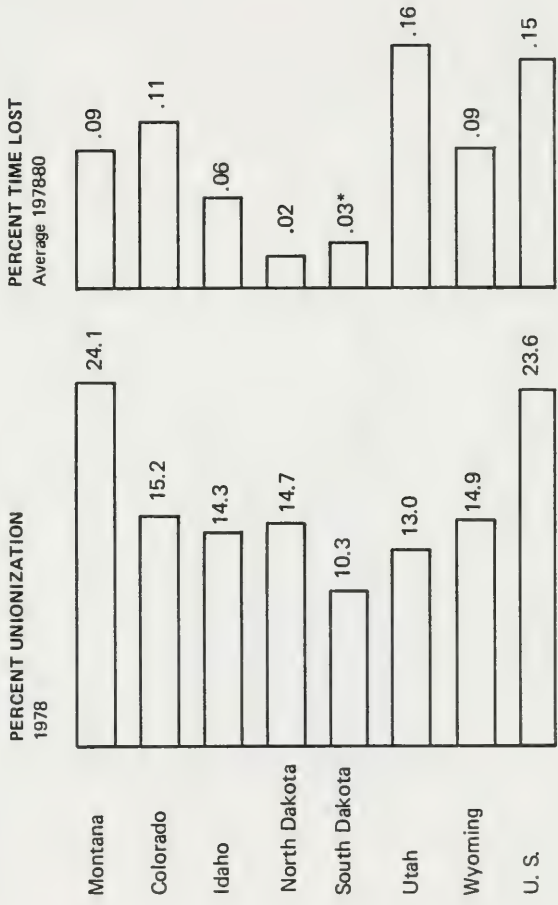
	<u>Montana</u>	<u>Colorado</u>	<u>Idaho</u>	<u>North Dakota</u>	<u>South Dakota</u>	<u>Utah</u>	<u>Wyoming</u>	<u>U.S.</u>
Food and kindred products	\$27	31	14	26	21	20	25	29
Lumber and wood	18	14	16		13	13		16
Stone, clay, glass	30		19	21	23	25	26	22
Fabricated metals	20	21		12	21	21		20
Nonelectrical machinery	14	31	11	25	15	35		26
Electric, electronic equipment	15			14	9	24		23

Source: 1978 Annual Survey of Manufacturers, Bureau of the Census



Montana is much more unionized than neighboring states - but its "time lost" record is good.

UNIONIZATION AND TIME LOST



* 2 year average

Source: U. S. Bureau of Labor Statistics, Directory of National and International Labor Unions in the U. S.

Capital

Capital is a highly mobile factor of production, with a well developed national market. Nevertheless, initial discussions suggested seven possible issues for attention.

SUGGESTED CAPITAL FORMATION ISSUES

1. Financing for medium-sized businesses, particularly the availability of equity capital
2. Financing of large-scale infrastructure projects
3. Sensitivity of out-of-state funding sources
4. Financing electric generation facilities
5. Argicultural processing projects
6. "Too much money leaving the state"
7. Financing municipal and public infrastructure

Four of these appear worth examining further. Even without specific issues, however, increasing capital formation - by any means - is a prerequisite to growth.

PRIORITY CAPITAL FORMATION ISSUES

ISSUE

Availability of debt and equity for start-up and medium-sized businesses

REASONING

- Demonstrated importance of such businesses to the economy and well documented difficulties in financing
- No venture capital institutions in Montana
- Small size of average bank/limited loan capability without participation
- Alleged absence of nonagricultural expertise/dynamism
- Public/private agreements and limits extremely important
- Doubts expressed as to viability of the traditional coop approach
- Possibilities for new organizational entities
- Demonstrated opportunities for more efficient financing means

Large-scale infrastructure financing

Agricultural processing

Municipal financing

Note: See pages 81 and 82 for comparison of state programs in capital assistance

B. MONTANA COULD DO MORE

With respect to public policy, there are three major conclusions:

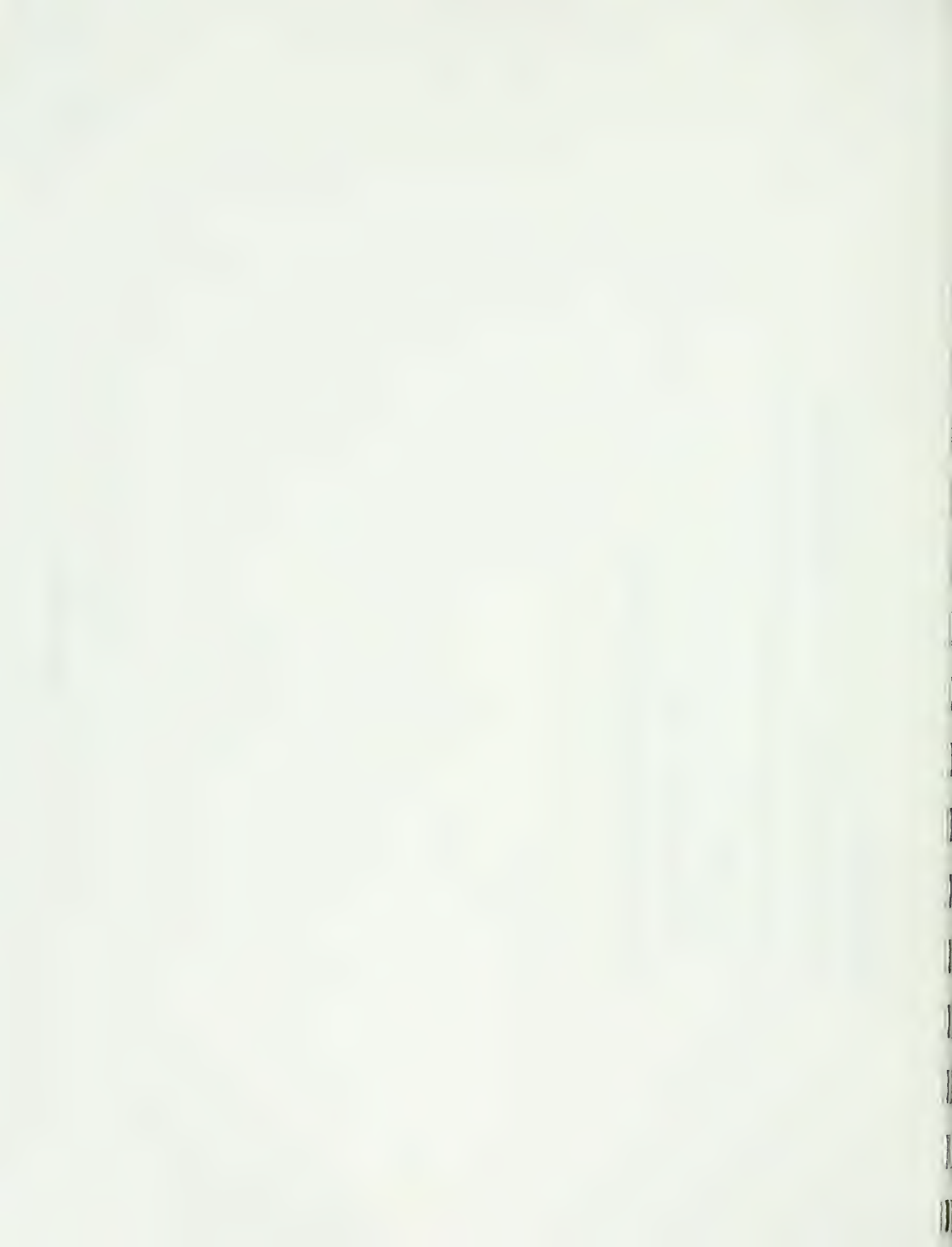
- ¶ Montana's tax structure is heavily oriented towards production taxes
- ¶ Although environmental standards are not decisively more restrictive than in other states, Montana is perceived as "antibusiness"
- ¶ Other states do much more to encourage economic development and job creation

Taxes Oriented
Towards Production

Montana's tax base is heavily oriented towards production-based taxes

- Heavy reliance on production taxes, even if severance excluded
- No sales tax
- High corporate income tax rates

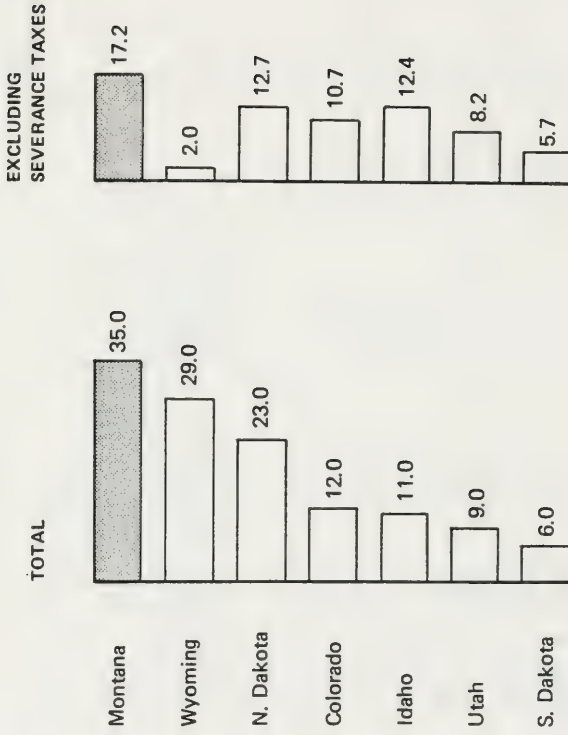
The state is, however, in excellent fiscal condition



Montana relies much more heavily on production taxes than consumption taxes than do neighboring states, even excluding the severance tax

STATE RELIANCE ON PRODUCTION-BASED TAXES

Percent of tax revenues



Source: *State Tax Handbook*, U.S. Department of Commerce; McKinsey analysis

INDIVIDUAL STATE TAX CONTRIBUTIONS AS A PERCENT OF ALL REVENUE, 1980

TAX

STATE

PRODUCTION-BASED

	Montana	Colorado	North Dakota	South Dakota	Utah	Wyoming	Washington	Oregon
Corporate organization	0.1	0.2	0.1	0.1				
Corporate income	10.4	6.7			5.1	0.2	13.9	12.3
Corporate franchise							0.1	0.1
Banks/franchise organization	.03		7.8	1.2				
Cement	2.5		11.8			27.2*	Local	Effective Jan '82
Oil and gas producers								3.5
Forest products	17.2	.7						
Coal severance	0.6							
Metalliferous								
Severance	0.1	1.3	0.9	0.9	1.3			
Chain store	1.5	0.1			0.2			
Utilities	2.7	2.7	2.5	3.9	2.3	1.8	3.7	0.3
Insurance company				0.1			1.5	2.3
Express company								
Total Production	35.0	11.8	23.2	6.3	8.9	29.2	19.3	18.5

CONSUMPTION-BASED

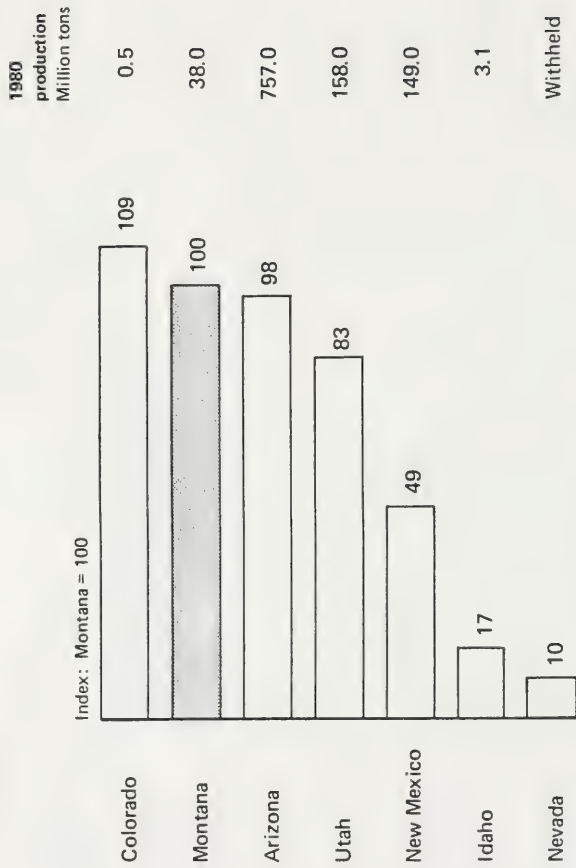
Personal income	31.0	31.8	16.4		33.8	5.9	11.150	59.9
General property	4.2	0.2	0.4					
Oleomargarine		0.6						
Milk and cream	11.7	7.6	9.0	0.9	9.4	9.7	8.793	6.4
Gasoline	3.5	1.7	1.8	15.5	0.8	0.5	2.914	0.8
Alcoholic beverage				2.9			8.2	
Conveyance								
Motor vehicle fees	5.2	3.6	7.2	10.6	2.6	8.1	8.2	7.5
Cigarettes/tobacco	2.7	2.3	2.6	3.9	1.3	1.4	2.2	2.1
Sales and use		36.1	33.4	54.4	41.3	42.0	41.8	
Inheritance/estate	2.0	2.0	0.8	2.7	0.2	0.7	1.9	1.9
Total Consumption	60.2	86.0	71.5	90.8	89.4	68.4	77.2	78.5
PERCENT OF ALL REVENUE	95.2	97.7	94.6	97.0	98.4	97.6	96.432	97.0

* Includes coal, oil, gas

Source: State Tax Handbook, U.S. Department of Commerce, State Offices of Revenue

Specific industry comparisons suggest that Montana's tax burden is at the high end in several anchor industries. For example, copper.

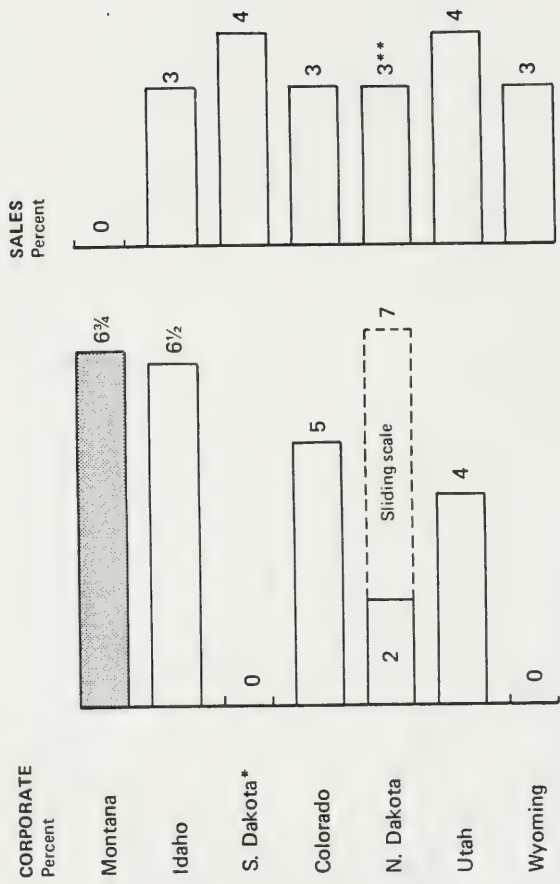
STATE TAXES ON COPPER PRODUCTION



Source: R. L. Davidoff, U.S. Bureau of Mines, study done for Montana State Legislative Council; 18% DCRR case

Montana has about the highest corporate income tax of all neighboring states - and is the only one without a sales tax

STATE TAX RATES



* Banks and Financial institutions 6%

** Farm machinery taxed at 2%

Source: *The Book of the States, 1982-83*

Montana Perceived
As Antibusiness

Taking air standards as the first example, Montana standards are stricter in certain areas, less so in others.

AIR STANDARDS COMPARED

Standards*	Montana		Colorado		Idaho		North Dakota		South Dakota		Utah		Wyoming		Oregon		Washington		
	County	Federal	County	Federal	County	Federal	County	Federal	County	Federal	County	Federal	County	Federal	County	Federal	County	Federal	
Sulfur dioxide	0	-1	-1	-1	-1	-1	+1	-1	-1	-1	-1	0	0	0	0	0	0	+1	+1
Particulates	0	-1	-1	-1	-1	-1	+1	+1	+1	+1	-1	+1	+1	+1	+1	+1	+1	+1	+1
Fluoride	0	n.a.	n.a.	-1	-1	-1	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	+1	n.a.	n.a.	n.a.	-1	-1	-1
Emission	0	0	0	0	0	0	0	-1	-1	-1	0	0	0	0	0	0	0	0	0

* 0 = Montana, -1 = less stringent than Montana, +1 = more stringent than Montana
Source: Air Quality Bureau, Montana Department of Health

Montana has more firmly institutionalized and supported environmental oversight

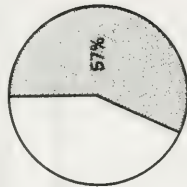
ENVIRONMENTAL OVERSIGHT MECHANISMS

	<u>Montana</u>	<u>Colorado</u>	<u>Idaho</u>	<u>North Dakota</u>	<u>South Dakota</u>	<u>Utah</u>	<u>Wyoming</u>
Environmental Policy Act	Mandated for "major projects"	None	None	None	Amended to be discretionary	Amended, informally used	None
Facilities Siting Policy	Specific act	Joint review process	None	Specific act	Specific act	None	Specific act
Coverage							
Energy conversion	✓	✓		✓	✓		✓
Transmission	✓	✓		✓	✓		✓
Mining		✓					
Industrial							✓
Requirements							
Assess:							
Need	✓	Fulfill all permitting applications		✓	✓		✓
Alternative sites	✓						
Environmental effects	✓				✓		✓
Alternative technology	✓			✓	✓		✓
Economic benefit				✓			
Resource use				✓			
Time frame (Months)	22 for review, 11 more for decision	10-40 for review and decision		Facility-6 Transmission-3	6-12		6
Other		Voluntary at applicant's request	Exclusion and avoidance (no alternative) areas designated				

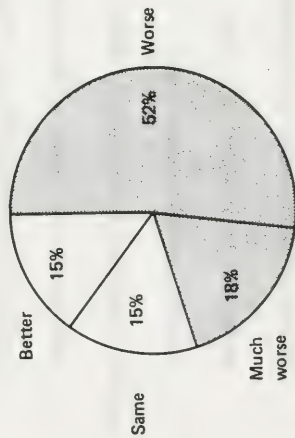


From interviews, however, comes the perception that Montana's business climate is less welcoming than our neighbors, a notion most often tied to a perceived anti-business attitude. Of course, businessmen in other states might say similar things. . .

Percent of business respondents specifically citing "attitude" as a problem



Rate Montana's business climate relative to neighboring states



N - 35
 77% Business
 6 Labor
 3 University
 14 Government

REPRESENTATIVE QUOTES

"Public policy has been somewhat antibusiness—we're building fences, not welcome mats"

"In Montana, there is an adversarial relationship . . ."

"This state is a protest place"

"Public policy is lip service, no real effort"

"Industry would accept environmental standards if they weren't 'moving targets' "

"There are bad adversarial gov/bus roles—although we have never *not* gotten a permit"

Many businesses interviewed, however, indicated the climate had improved over the last two years.

Date	Particulars	Debit	Credit	Balance
1900	To Balance b/d			
1901	By Balance b/d			
1902	To Balance b/d			
1903	By Balance b/d			
1904	To Balance b/d			
1905	By Balance b/d			

In support, businessmen point to antibusiness "signals" - not solely within government, but reflecting a general attitude throughout the state . . .

- Coal Severance Tax - first and highest in the nation
- Major Facilities Siting law - first in the nation
- Environmental Policy Act - one of only three western states with specific statute
- Disallowance of coal slurry as beneficial water use
- Cases of long permitting time - particularly Colstrip (6 to 7 years)
- Plant closure initiative - failed in 1980, but being revived

. . . but there have been recent positive signs

- Repeal of Inventory Tax - 1980
- Permitting of Northern Tier - 1981
- Creation of Department of Commerce
- Loaned Executive Program
- Montana Economic Development Project
- Montana Poll Results

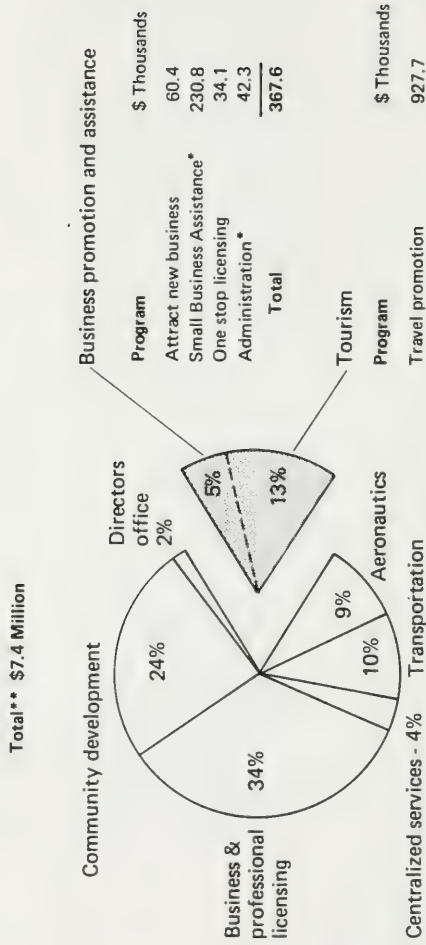
Montana Could Be
More Aggressive

A comparison of Montana activities to those of other states indicates Montana could be doing much more to stimulate economic development

- ¶ Montana has some fundamental programs in place – although there are gaps and questions of scale
- ¶ Development programs in other states generally reflect much greater commitment, focus and innovation

Few of the Commerce Department's activities are truly in economic development. . .

COMMERCE DEPARTMENT BUDGET



* 62% of these funds are federal and have been cut from the 1984 federal budget

** Coal Board and Federal Community Development Block Grants excluded

Source: Montana Commerce Department

Although Montana does offer many of the programs, incentives, and services offered in other states.

STATE ECONOMIC DEVELOPMENT PROGRAM OFFERINGS

FINANCIAL ASSISTANCE

	State sponsored Industrial Development Authority	Privately sponsored Credit Corp.	State Authority or Agency Revenue Bond Financing	State Authority or Agency General Obligation Bond Financing	City and/or County Revenue and Bond Financing	City and/or County General Obligation Bond Financing	State Loans for Building Construction	State Loans for Equipment, Machinery	City and/or County Loans for Building Construction	City and/or County Loans for Equipment, Machinery	State Loan Guarantees for Building Construction	State Loan Guarantees for Equipment, Machinery	City and/or County Loan Guarantees for Building Construction	City and/or County Loan Guarantees for Equip/Mach	State Financing Aid for Existing Plant Expansions	State Matching Funds for City and/or County Industrial Financing Programs
Montana	✓				✓				✓							
Neighbors - 6*	2	3	2	1	5	2	1	1	0	0	0	1	0	0	1	1
U.S. - 50	31	34	25	10	48	25	23	19	15	11	18	19	2	2	31	10

* Colorado, Idaho, N. Dakota, S. Dakota, Utah, Wyoming
 Source: *The Fifty Legislative Climates 1982*, Conway Publications; Northeast-Mideast Coalition

TAX INCENTIVES

Corporate Income Tax Exemption	Personal Income Tax Exemption	Excise Tax Exemption	Tax Exemption or Moratorium on Land, Capital Improvements	Tax Exemption or Moratorium on Equip/Mach	Inventory Tax Exemption on Goods in Transit	Tax Exemption on Manufacturers' Inventories	Sales/Use Tax Exemption on New Equipment	Tax Exemption on Raw Materials Used in Manufacturing	Tax Incentive for Creation of Jobs	Tax Incentive for Industrial Investment	Tax Credits for Use of Specified State Products	Tax Stabilization Agreements for Specified Industries	Tax Exemption to Encourage Research and Development	Accelerated Depreciation of Industrial Equipment
✓			✓	✓	✓	✓	✓		✓					
3	3	4	2	2	6	6	2	6	2	1	0	0	1	2
25	20	16	29	33	46	43	38	47	16	20	5	5	11	30

Montana

Neighbors - 6*

U.S. - 50

* Colorado, Idaho, N. Dakota, S. Dakota, Utah, Wyoming

Source: *The Fifty Legislative Climates 1982*, Conway Publications; Northeast-Midwest Coalition

SPECIAL SERVICES

State Financed Speculative Building	9	26	15	9	48	38	33	37	50	50	49	50	49	6	6	49
City and/or County Financed Speculative Building	0	3	2	0	5	6	2	3	6	6	6	6	6	6	6	6
State-owned Industrial Park Sites					✓	✓	✓		✓	✓	✓	✓	✓	✓	✓	✓
City and/or County-owned Industrial Park Sites																
State Funds for City and/or County Development-Related Public Works Projects					✓	✓	✓									
State Funds for City and/or County Master Plans																
State Program to Promote Research and Development																
State Program to Increase Export of Products									✓	✓	✓	✓	✓	✓	✓	✓
University R&D Facilities Available to Industry																
State and/or University Conducts Feasibility Studies to Attract/Assist Industry																
State Recruiting, Screening of Industrial Employees																
State Supported Training of Industrial Employees																
State Retraining of Industrial Employees																

Montana

Neighbors - 6*

U.S. - 50

* Colorado, Idaho, N. Dakota, S. Dakota, Utah, Wyoming
 Source: *The Fifty Legislative Climates 1982*, Conway Publications; Northeast-Midwest Coalition



But, some programs are missing. . .

DEVELOPMENT PROGRAM "GAPS"

Program area	What Montana does	What Others do
Training	No state funded programs Offer: <ul style="list-style-type: none">• Standard CETA• Local vocational schools	State sponsored: Arkansas, Indiana—state supported employer specific training Kentucky—state training centers Massachusetts—\$270,000 state training grants; joint public-private \$20 million microelectronics training center New Mexico—\$1 million annually for Inplant Training Program South Carolina—91 targeted skills schools; 6 technical resource centers in machine tool, microelectronics, robotics, waste treatment, office work, computer uses
International Marketing	Handled with half-time of one person	Washington—Tokyo office; \$864,000 budget Alaska—Tokyo, Copenhagen offices North Carolina—Dusseldorf, Tokyo offices, \$860,000 budget Arkansas—Brussels office Missouri—\$300,000 for Dusseldorf office alone Arizona—\$200,000 budget
State promotion/advertising	\$30,000 state brochure published in 1981—federally funded—first effort	Washington—\$440,000 marketing budget in business development Kentucky & Co.—\$1 million advertising budget, national and international coverage Maryland—"Come for the Carrot"—direct mailings, follow up visits, media blitz Illinois—\$1.2 million ad campaign

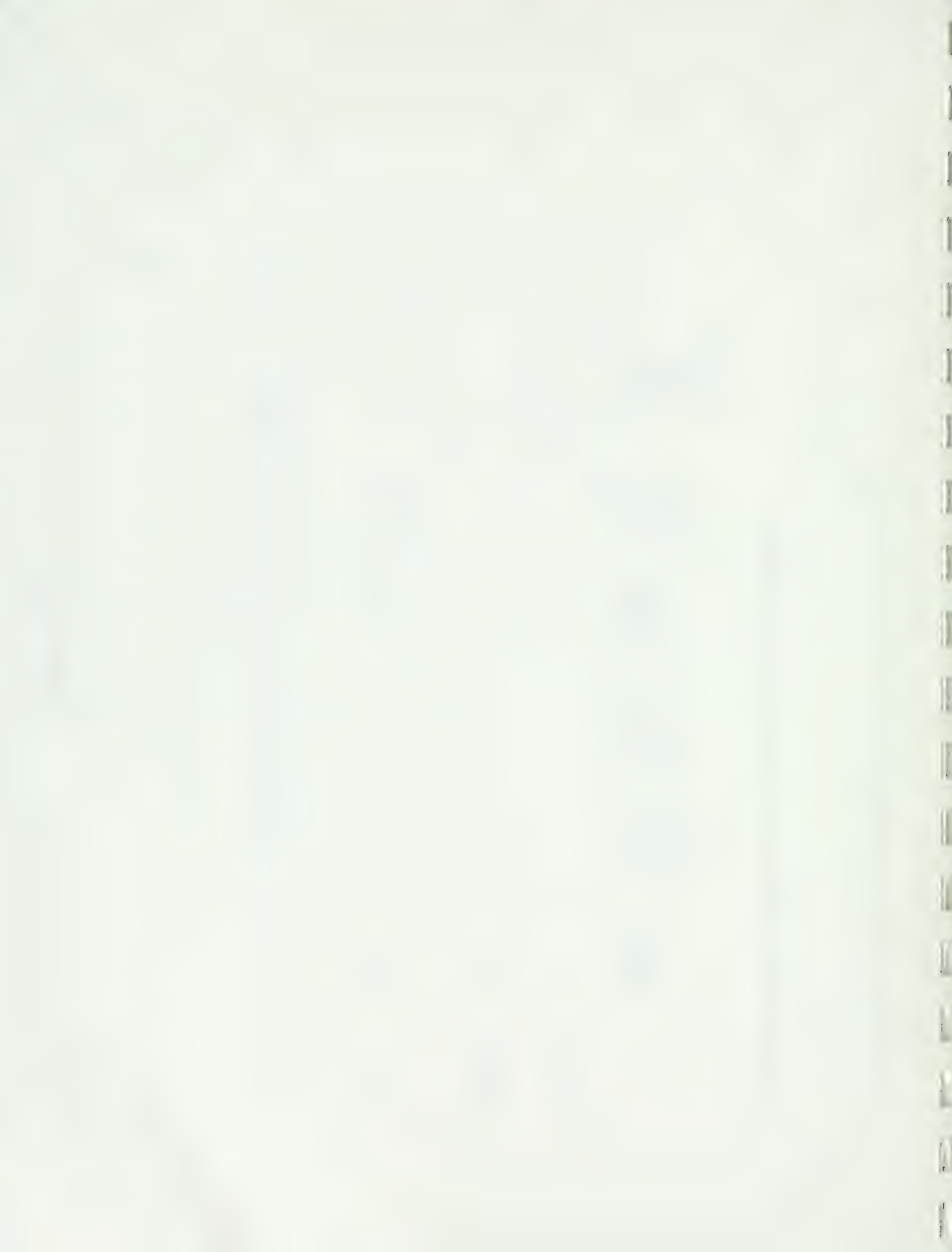
Source: State development offices; *Plants, Sites and Parks, AIPR*

In terms of capital assistance, Montana has only one, largely inactive program . . .

SOURCES OF CAPITAL ASSISTANCE FOR INDUSTRIAL DEVELOPMENT

	Business Development Corporation	Commerce Department or Economic Development Agency	Public Development Finance Corporation	Industrial Development Authority	State General Obligation Bond Authority	Small Business Investment Company/ Minority Enterprise SBIC	Other
MONTANA	✓						
NEIGHBORS (6)	5 (1 inactive)	2	0	2	1	4	1
U.S. (50)	40 (6 inactive)	15	6	30	9	46	15

Source: *Guide to State Capital Formation Incentives and Innovations*, Midwestern Governors' Conference, 1982



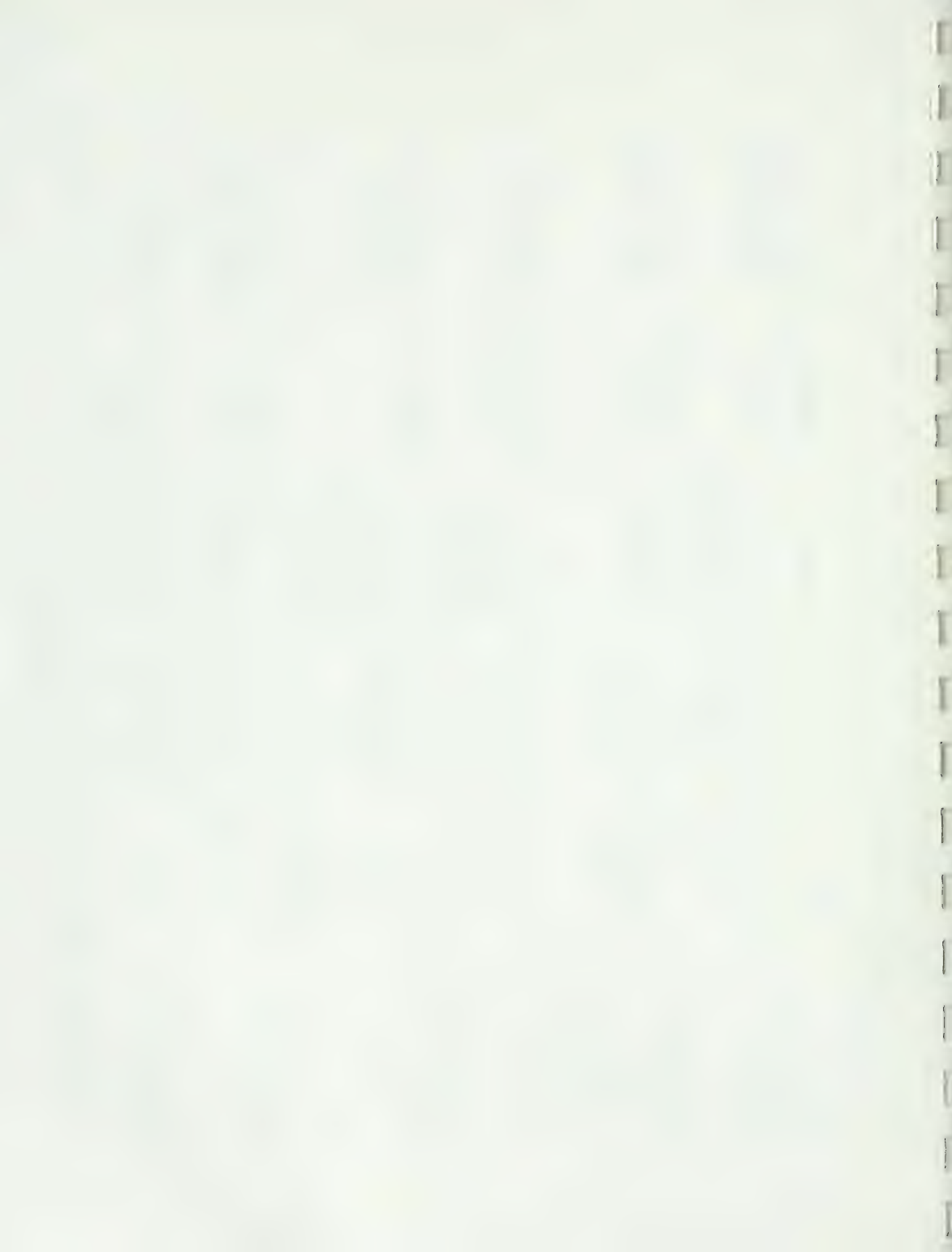
While other states have been particularly innovative and aggressive

OTHERS IDEAS IN CAPITAL ASSISTANCE

Program	Scale	For what	Method	Managed by	Results
Connecticut Product Development Corp. • Grants	Invested \$2.1 million in 2 years	Product development Firms without normal financing	Fund 60% of costs—5% sales royalty once successful—no interest	Governor appts. 6, 3 professionals	Appears highly successful—project '82 royalties at \$2 million
Ohio Development Finance Commission • Direct loans • IRBs • Loan guarantees (product development grants just begun)	\$28.5 m outstanding 83.0 million 9.0 million	Real estate Open Fixed assets	Lend 30% of costs at state's cost	Governor appts. 7, 5 staffers, contract for reviewers	Unclear—some funding cuts but programs being added
Maine Guarantee Authority • Direct loans • IRBs (Mortgage insurance)	\$22.0 m outstanding 12 million	Fixed assets, mach/equip. Fairly open	Borrow at state rate, lend at current bank lending rate Relend at cost	Governor appts. panel, State Treasurer, Commerce Director	Big defaults, doubt success
Kentucky Development Finance Authority • Direct loans • IRBs • Revenue bonds	\$11 million outstanding 50 million Just starting	Fixed assets, small, growth-oriented Fairly open	1st mortgage or federal discount—whichever lower—2nd mortgage position Relend at cost	Governor appts. 13, 6 staffers	Breaking even Aggressive lending—28 projects in '81, 3 or 4 in '80
Pennsylvania Industrial Development Authority • Direct loans	\$300 m outstanding	Industrial, manuf., agric., R&D; land/buildings	Lend at varying rates below market	7 public appts., 5 cabinet sec., 4 staffers	Low default rate Appears to help established—not new—firms
Massachusetts Technology Development Corp. • Equity investments	\$2.6 million invested	High tech start ups 50% in low income areas	Lend at 1-5 pts. below prime, gain 5% equity	Lt. Gov., Commerce Sec., 9 business, financial reps., 7 staffers	Too soon to tell Probably too small

Source: *Guide to State Capital Formation Incentives and Innovations*, Midwestern Governor's Conference, 1982

McKinsey & Company, Inc.



There are questions of commitment and scale in existing development projects . . .

THE SIZE OF DEVELOPMENT EFFORTS

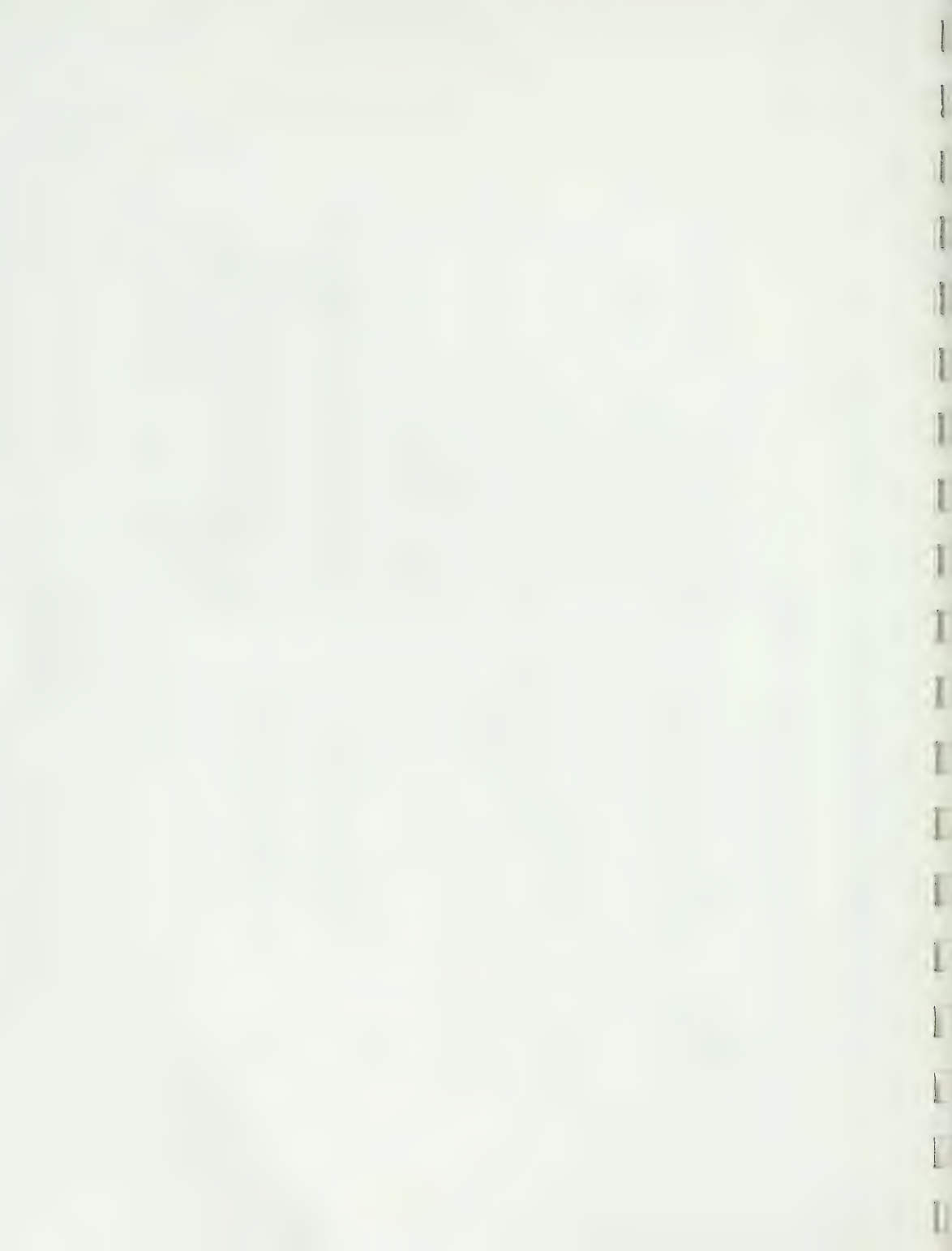
Program	What Montana does	What Others do
Tourism promotion	43 among the 50 states in spending, \$730,000 state budget plus \$200,000 private Market, product definition begun	Alaska tops at \$11.4 million All 6 "neighbor" states spend more than Montana; Utah \$1.9 million, South Dakota \$1.4 million Spend 25% of the average state spending
Economic Development Budget	Commerce Department only created last year State funds \$205,000 (plus \$160,000 Federal)	Alaska — \$1.5 million North Dakota — \$1.2 million Kentucky — \$4.8 million Arizona — \$709,000 Wyoming — \$190,000 Washington — \$3.7 million Idaho — \$280,000
R&D Programs	Direct appropriations to University Experiment Stations \$5 million Small grants for university energy related research	Massachusetts — Governor encouraging university/industry contracting for R&D; 3% tax credit Massachusetts Technology Corp.—venture capital for high tech R&D California — \$90 million University R&D budget; California Commission on Industrial Innovation—industry/university/governors' coalition to keep California conducive for high tech growth; Microelectronics and Computer Science R&D Program—faculty proposed research for industry backing North Carolina — Board of Science and Technology—state board to encourage industry/university cooperation; University R&D budget \$30 million



... and other states have developed greater focus...

FOCUSED STATE DEVELOPMENT PROGRAMS—A SAMPLER

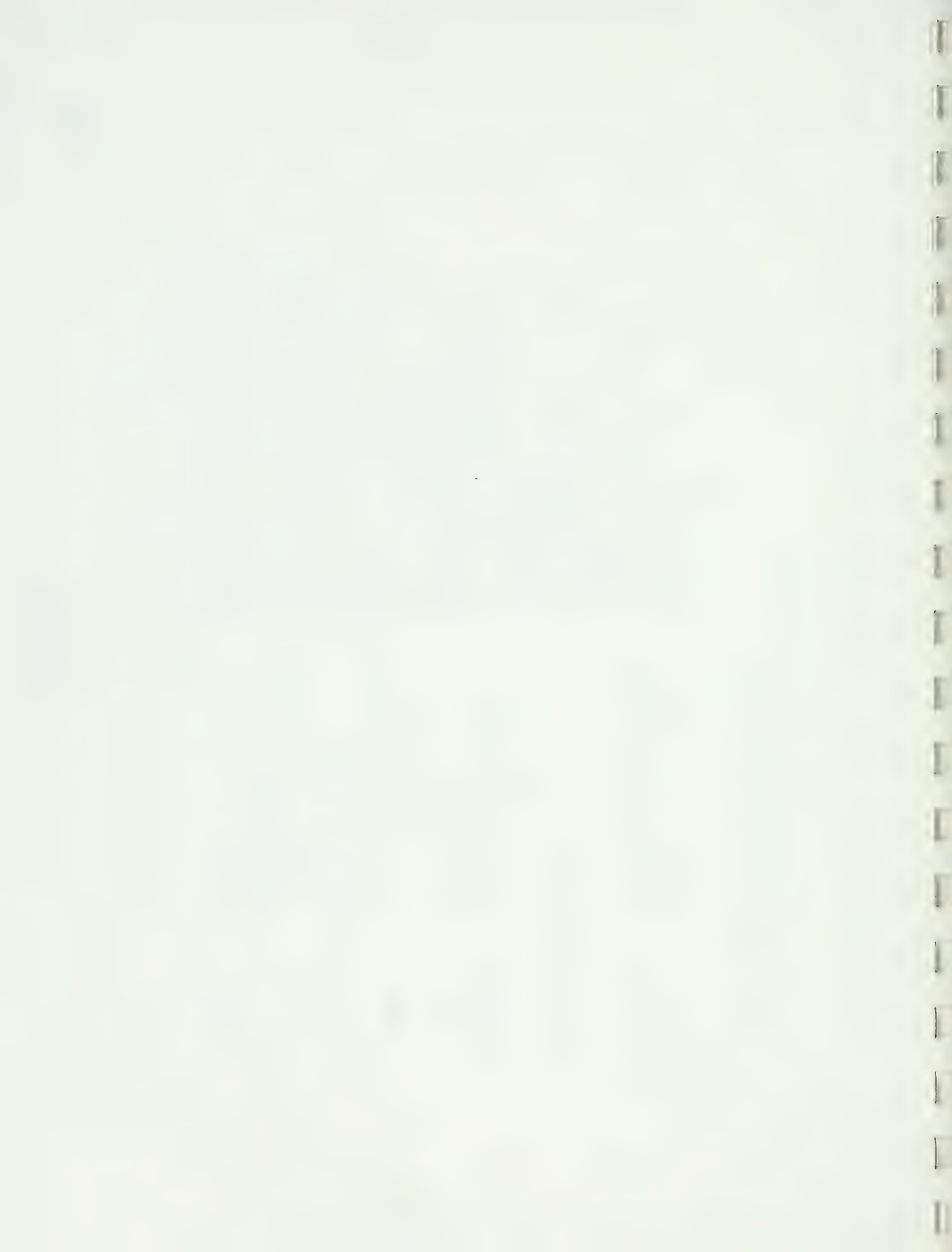
State	Focus	Actions
Pennsylvania	Build off heavy industry/steel skills Encourage foreign investment to modernize steel industry	\$200 million state VW package <ul style="list-style-type: none"> • Low cost loans • Deferred, minimized taxes • New highways constructed • Rail spur constructed Tokyo development office
Delaware	Financial institutions—"major economic quarry for future economic growth"—Gov. du Pont	Financial Center Development Act Keep down government spending and debt Keep taxes fair and predictable
Massachusetts	Expand microelectronics and high technology base	Government—High Tech company "Social Contract" to reduce taxes, increase jobs Innovation Development Corporation New \$40 million microelectronics training center \$1.2 billion in IRBs in 3 years
Indiana	"Self Help" • Support in-state business • Limit government interference	Identify new markets for agriculture, agribusiness Create a venture capital pool for small, innovative businesses Target 2-3 dozen top national employers as possible new businesses
Maine	High tech companies and defense related manufacturing	Cooperative industrial advertising campaign with local development groups Cataloging university research—contacting industries using those strengths

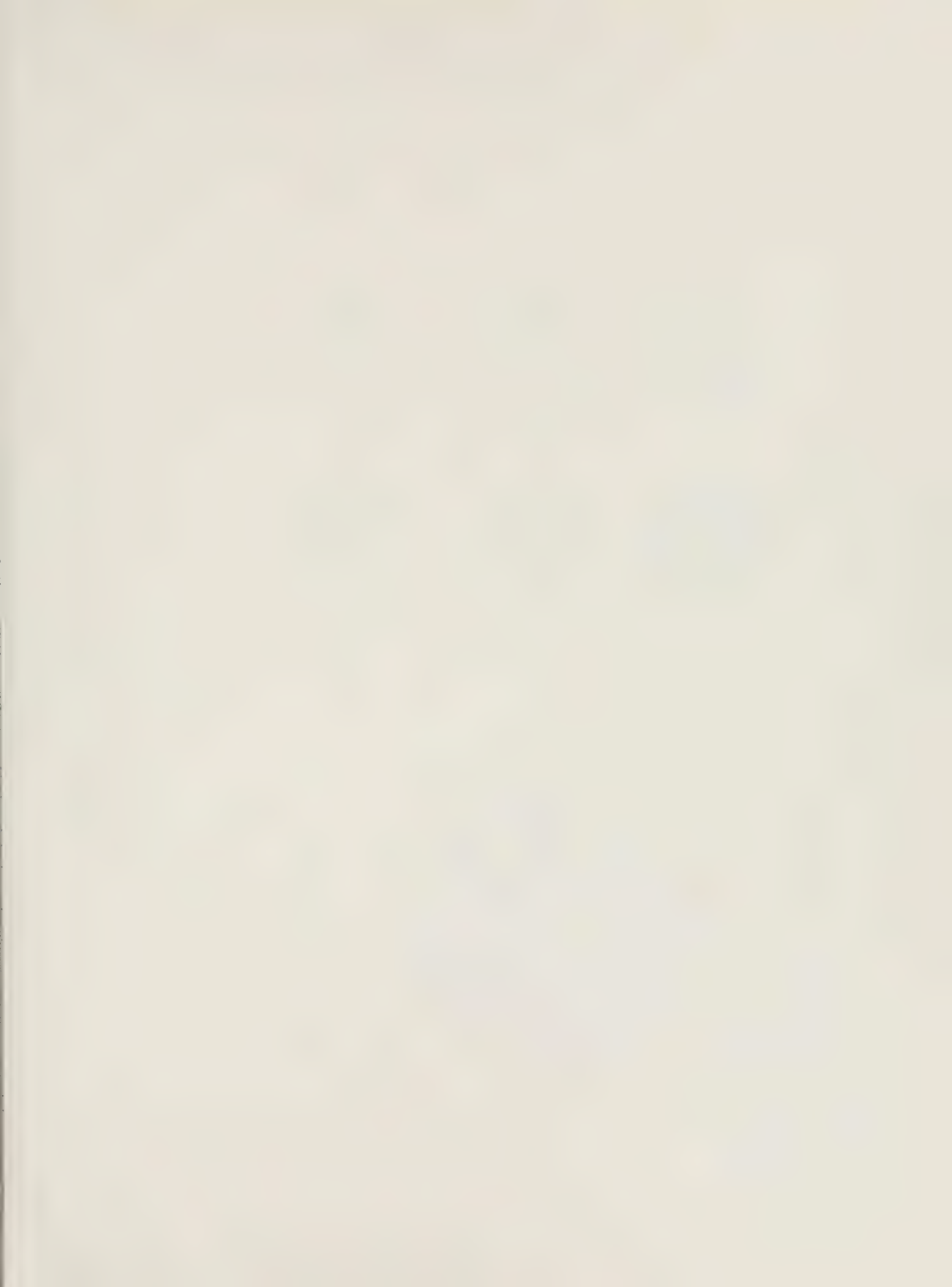


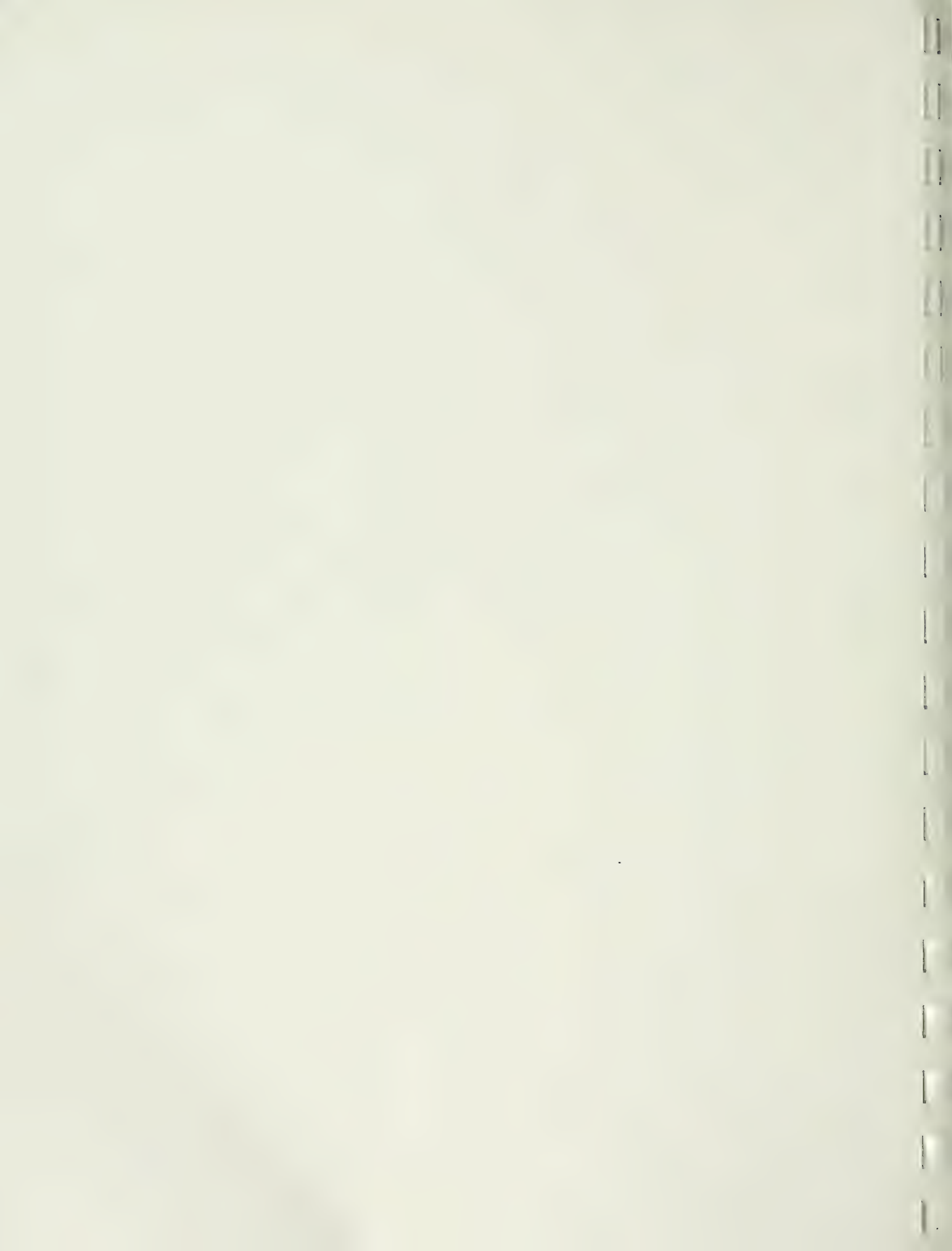
... and experimented with innovative ideas - often at little or no cost.

SOME INNOVATIVE, LOW COST PROGRAMS

State	Approach	Intent
Maryland	Office of Business Liaison	State experts to assist in general business management
Massachusetts	Call One	State research service handling data needs for prospective locators
Mississippi	Key Communities Program	State training for local development leaders
Virginia	Ambassadors Group	Private business leaders encouraging foreign investment—traveling, hosting, etc.
Delaware	Financial Center Development Act	Allows bank holding companies to acquire banks in state
South Dakota	Financial services act	Special act to bring in credit card service center
Vermont	Legislation to promote industrial park development	Develop thematic parks in agribusiness and service businesses
Illinois	"Reg-Flex"	Assess regulatory impacts on business size, including the comments and suggestions of business







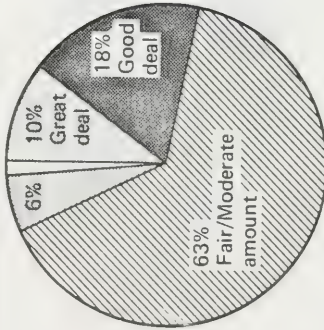
5 - ATTITUDES TOWARDS ECONOMIC DEVELOPMENT

The Montana Poll indicated a near universal desire for economic growth

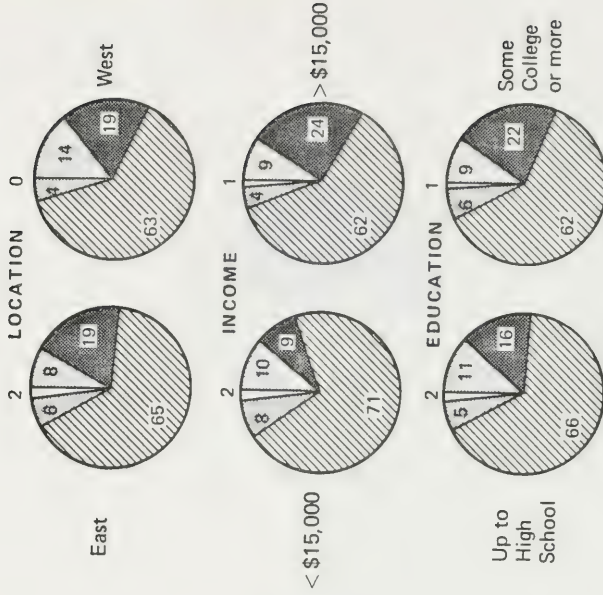
MONTANANS FAVOR GROWTH

How much should Montana's economy grow over the next five years?

Not too much 1% - Not at all



All responses



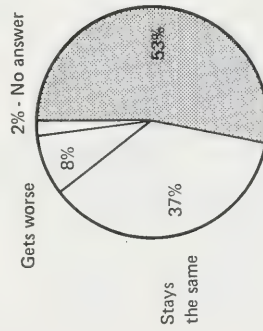
Source: Montana Poll, June/July, 1982



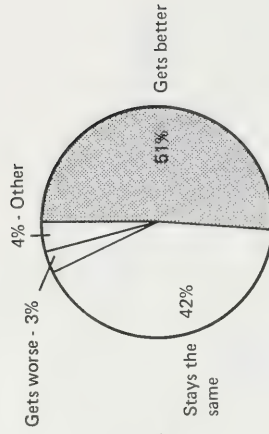
Most people believe they personally benefit from economic growth in both their standard of living and overall quality of life

WHEN THE STATE ECONOMY GROWS, WHAT HAPPENS TO YOUR:

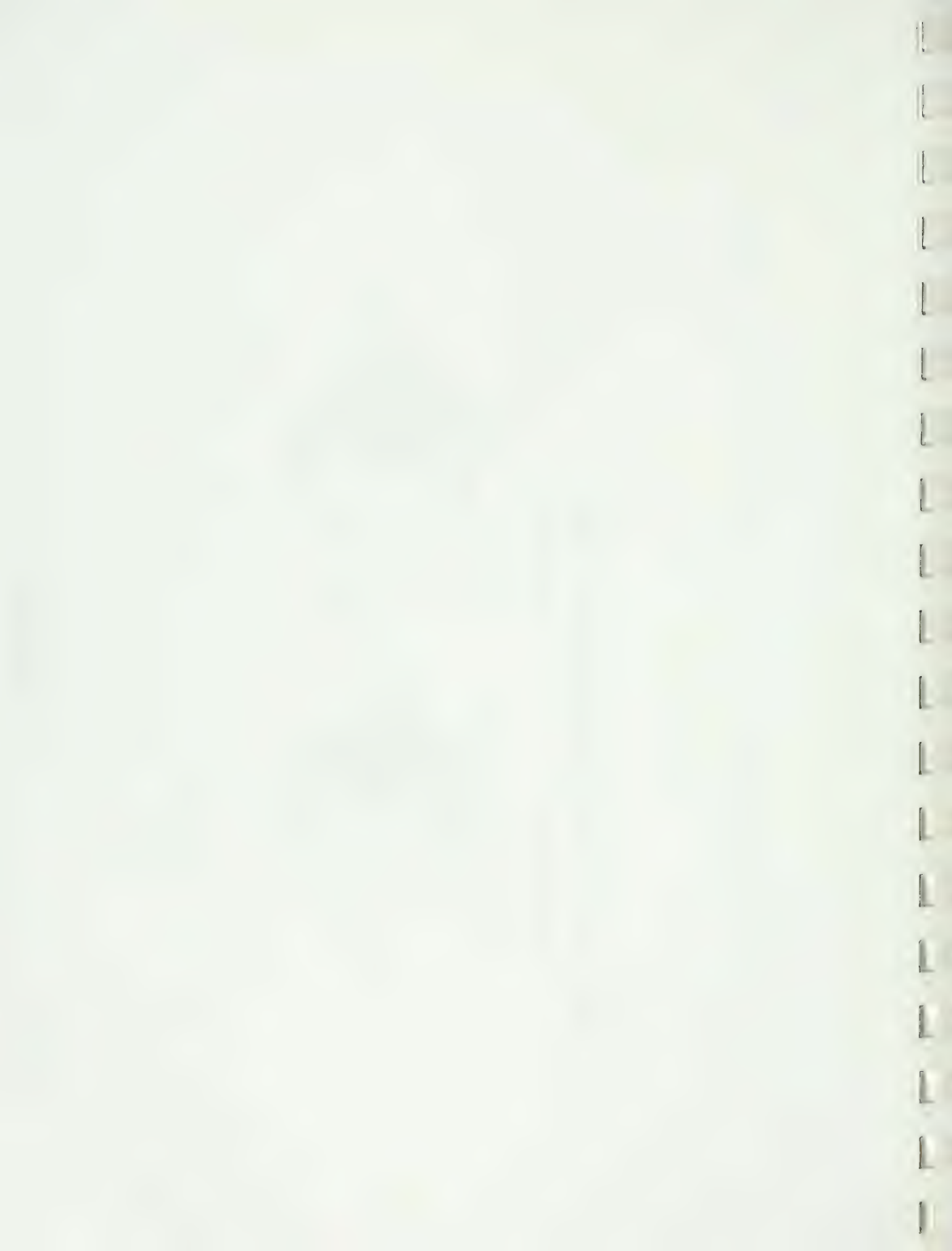
STANDARD OF LIVING



QUALITY OF LIFE

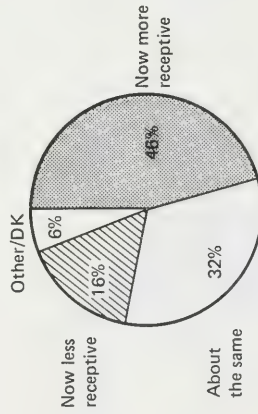


Source: *Montana Poll*, June/July 1982

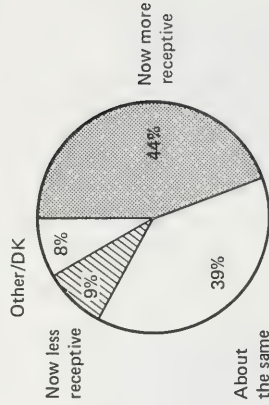


A significant percentage of Montanans say the state is now significantly more receptive to economic growth than it was 5 years ago - and believe the state government is reflective of this change in attitude

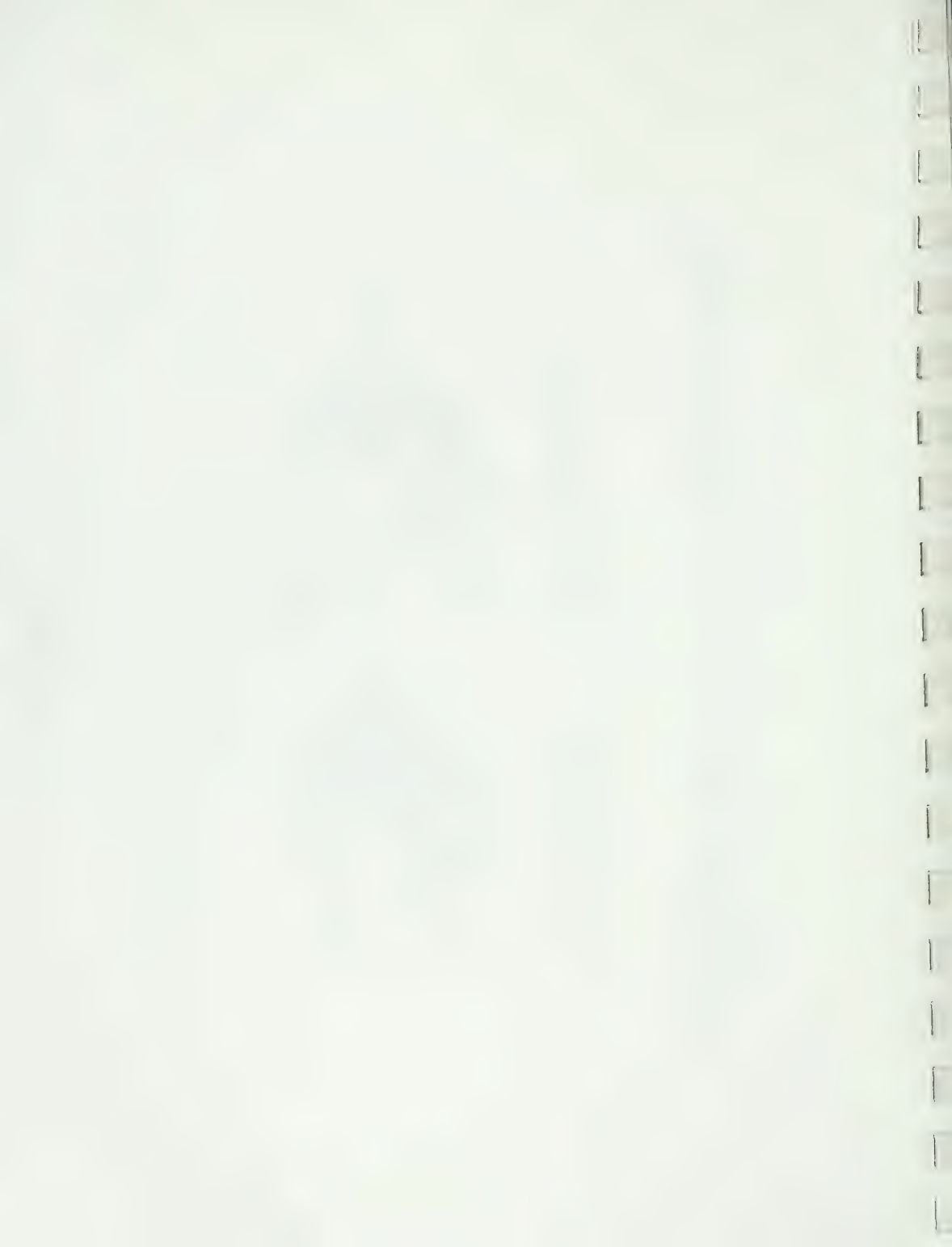
Relative to five years ago, how receptive is Montana to economic development?



Relative to five year ago, how receptive is state government to economic development?

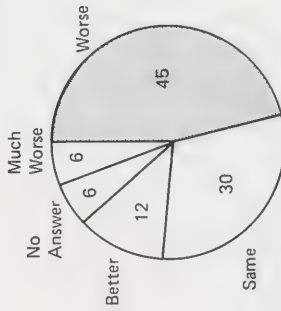


Source: *Montana Poll*, June/July 1982

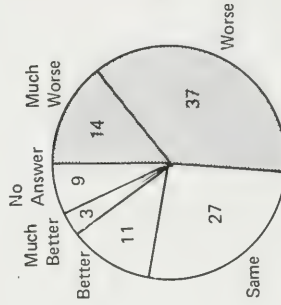


LEGISLATURE SURVEY RESULTS - AUGUST 1982

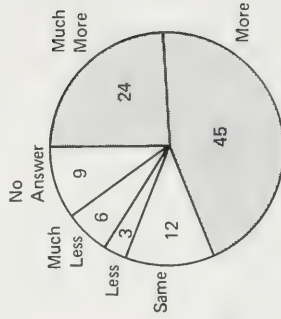
Rate Montana's business climate relative to neighboring states

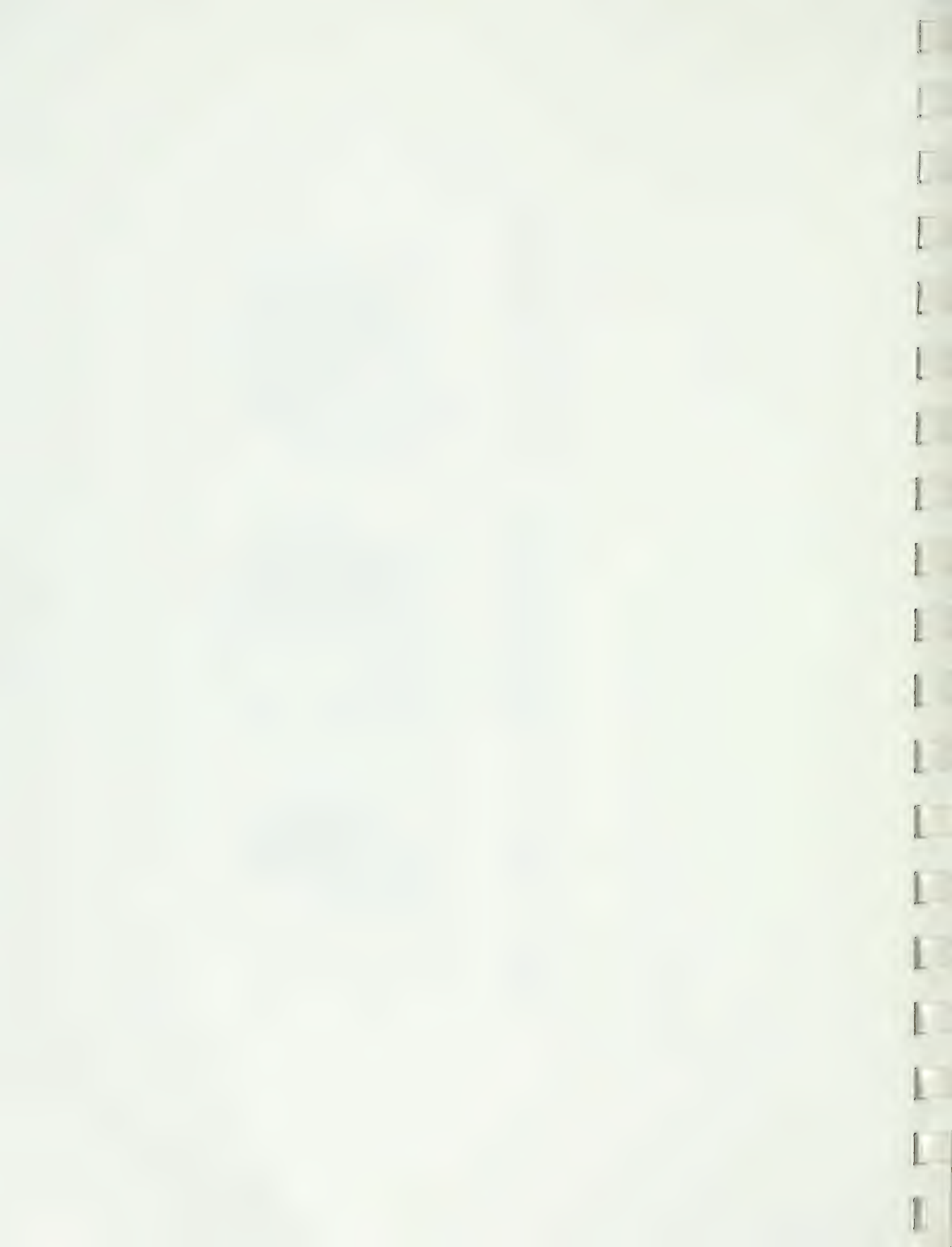


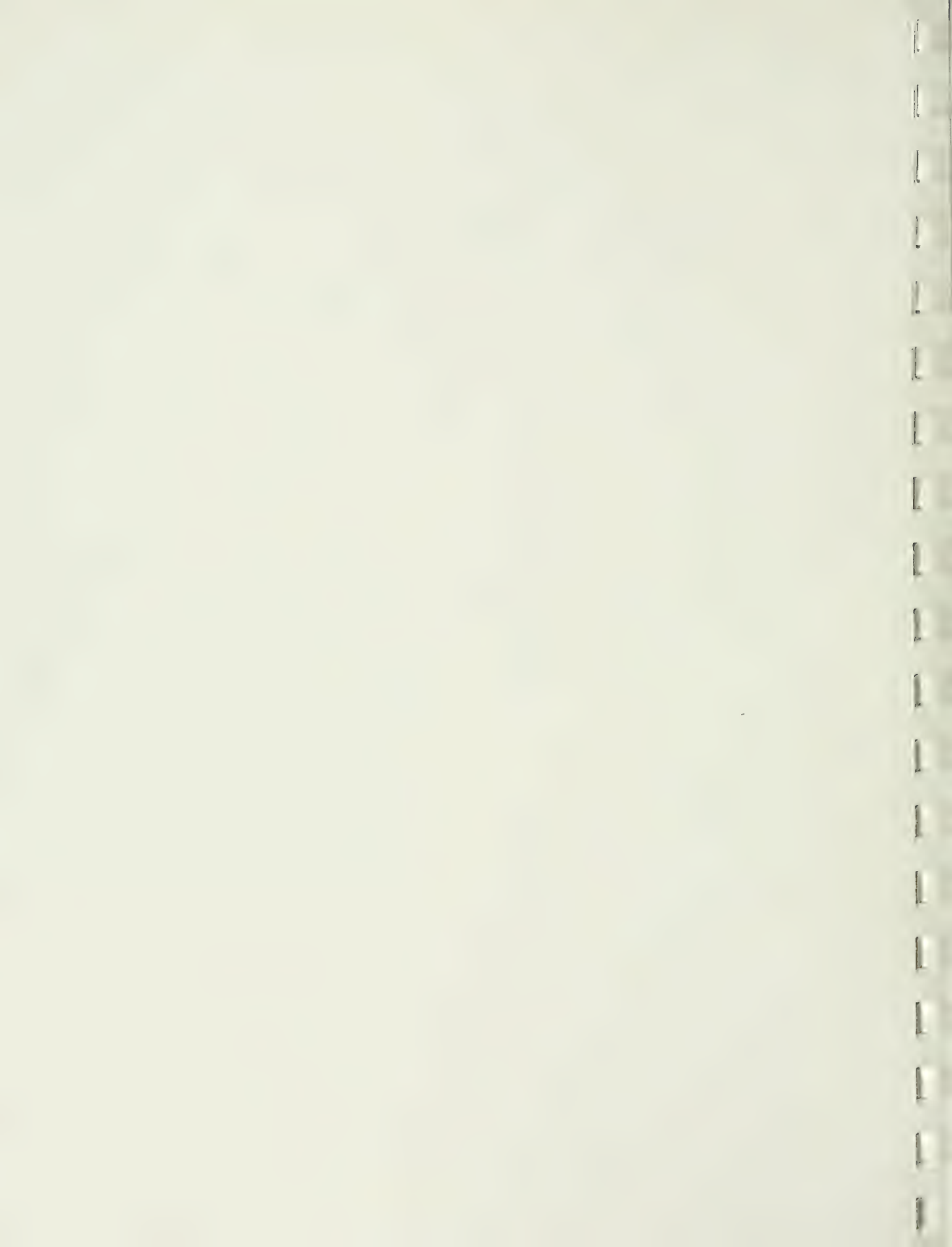
How would you rate Montana relative to other states in public attitude towards business



What should state government be doing in economic development?





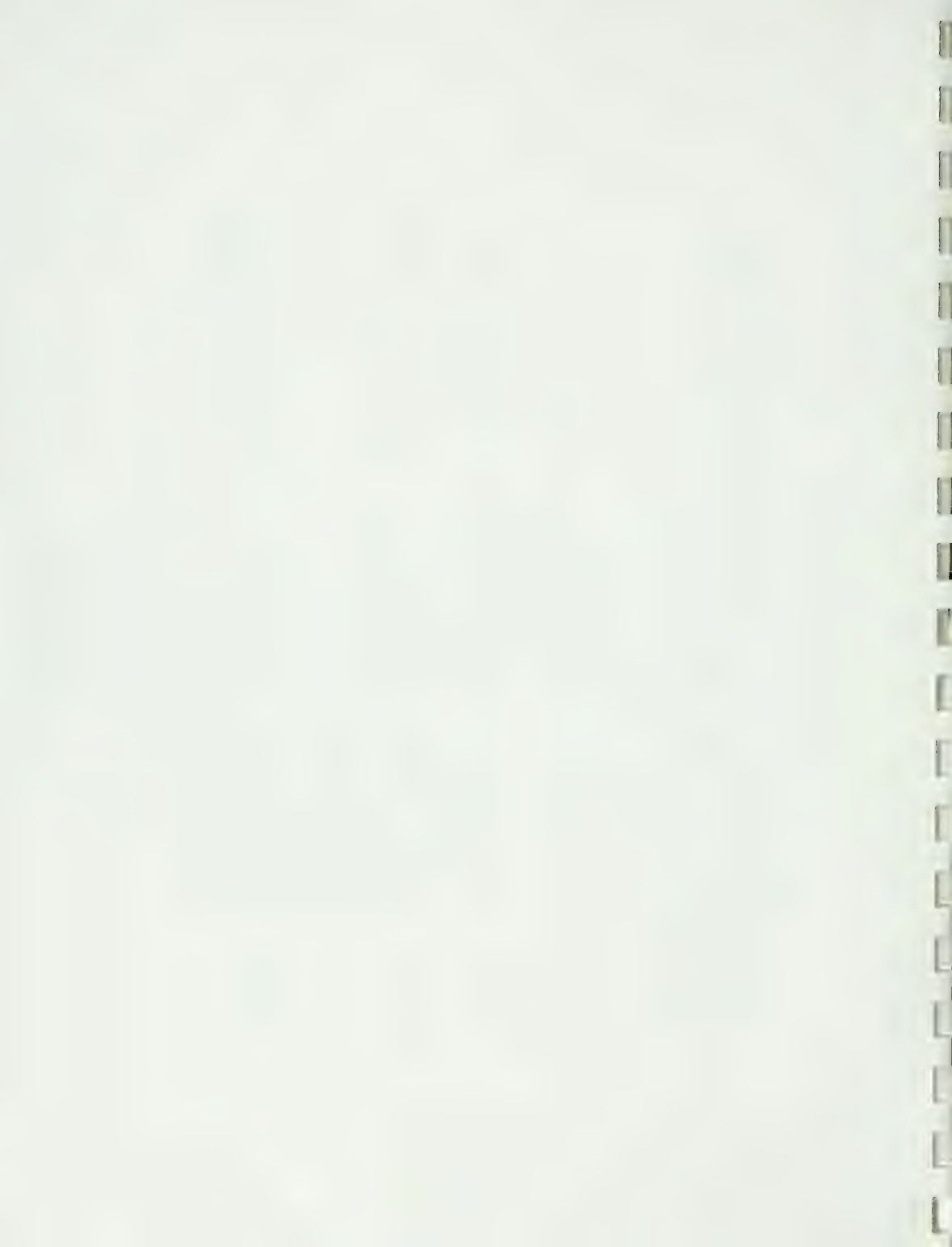


6 - KEY INDUSTRY GROUPINGS

An overall theme of "Balanced Diversity" best describes Montana's aspirations for its primary economy. A screening of existing and prospective businesses suggests programs could address three distinct subgroupings of economic activities - anchor industries, anchor enhancements, and new businesses - or the economy in general

TARGET INDUSTRY GROUPINGS

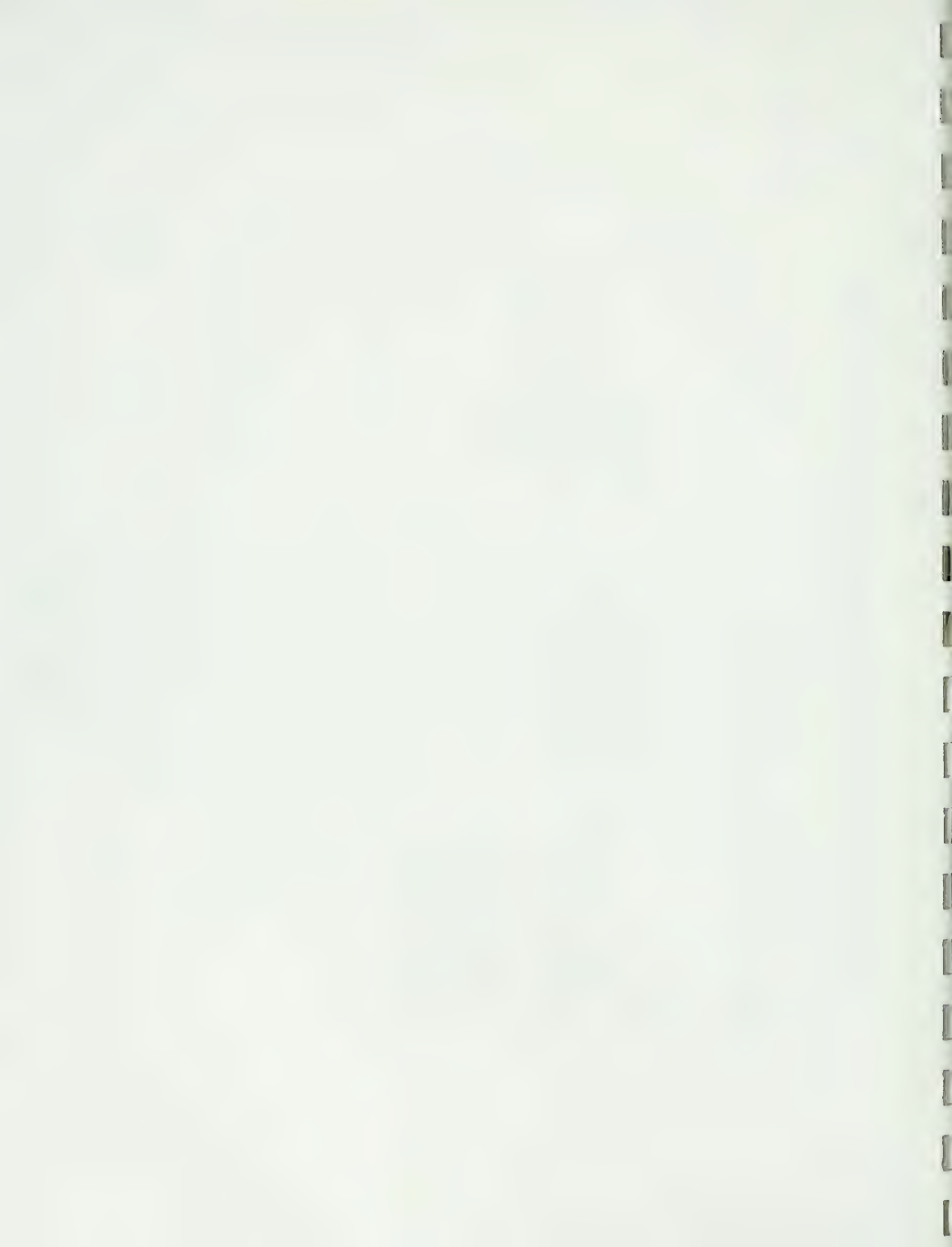
	Anchors	Anchor enhancements	New business
Description	<ul style="list-style-type: none"> Natural resource based 	<ul style="list-style-type: none"> Extensions of natural resource-based businesses 	<ul style="list-style-type: none"> Technology, growth oriented
Examples	<ul style="list-style-type: none"> Timber, coal, oil and gas, hard rock, tourism, rail transportation, water 	<ul style="list-style-type: none"> Food processing, pulp/paper, electricity, metals processing, refining 	<ul style="list-style-type: none"> Computers, electronics, oil field machinery, software services, architectural engineering
Desirability	<ul style="list-style-type: none"> Generally very high incomes (except tourism) Export oriented High contributors to public revenues Environmentally more controversial 	<ul style="list-style-type: none"> Good paying Mostly export oriented Generally less volatile 	<ul style="list-style-type: none"> Smaller scale, more entrepreneurial More labor intensive Environmentally "clean"
Comparative advantages	<ul style="list-style-type: none"> High-based on resource, although other states competitive Greatest transportation penalties 	<ul style="list-style-type: none"> High linkages 	<ul style="list-style-type: none"> Quality of life can be an attraction otherwise need to "create" advantages



Needs or methods to stimulate growth vary greatly among groups -- and even within a single group

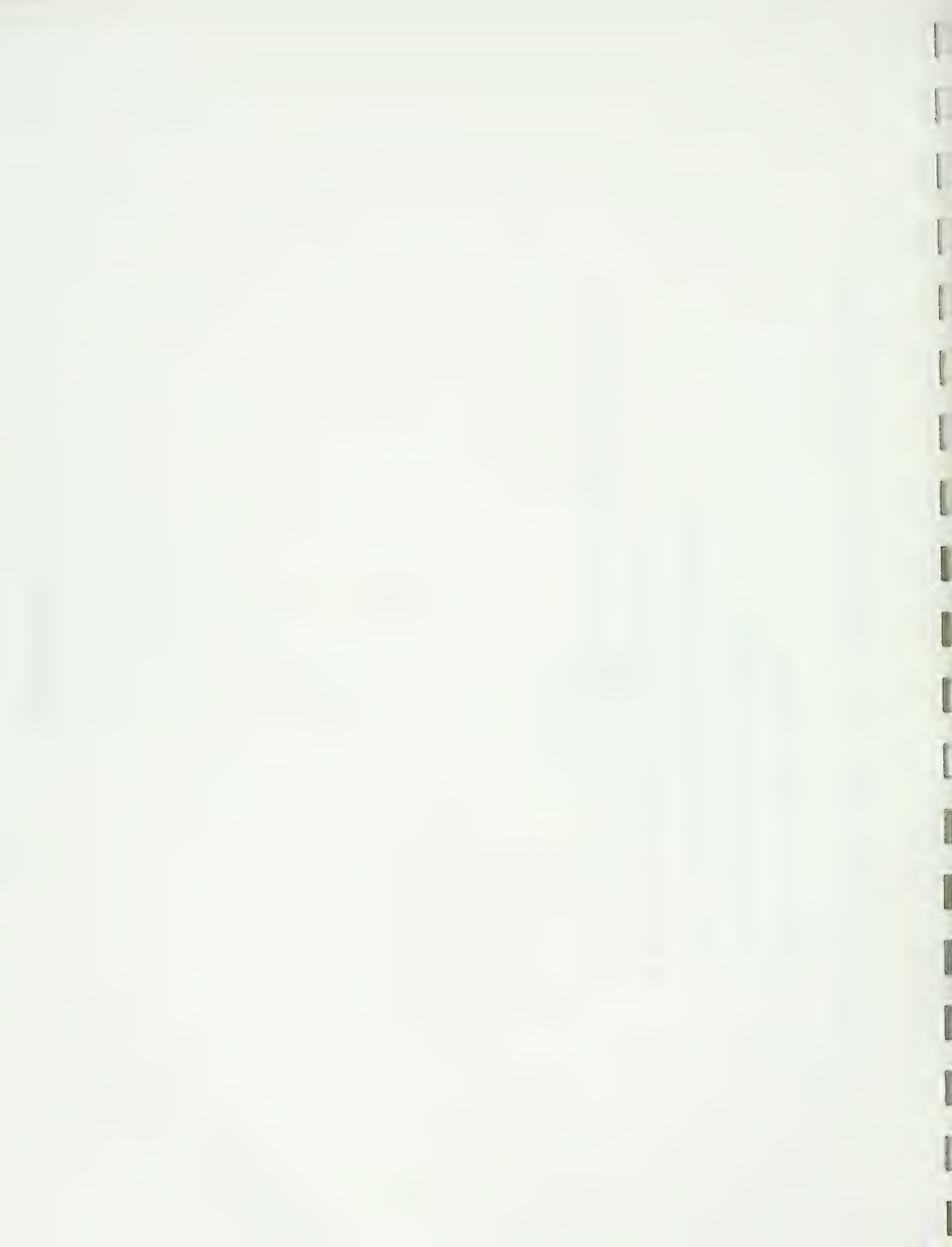
DEVELOPMENT NEEDS OF TARGET GROUPINGS

Anchors	Anchor enhancements	New businesses
<ul style="list-style-type: none">● Reduced uncertainty in tax, regulatory policies, (anchors generally long-term investments)● Assistance in opening new markets, especially across political borders● Environmental acceptance● Selective tax relief● Lower cost transportation	<ul style="list-style-type: none">● Applications technology● Encouragement● Marketing assistance	<ul style="list-style-type: none">● Targeted pre-conditions—e.g., trained labor force● Marketing/attraction program● Initial incentives to locate in Montana● Risk capital



level
There are also underlying development needs which should be addressed at a general

- ¶ Capitalize on Montana's advantages
- ¶ Offset disadvantages present in Montana
- ¶ Offset perceived image of Montana as anti-business
- ¶ Create greater awareness and interest in Montana
- ¶ Generally focus on greater cooperation among Montana's economic participants



Each existing industry and sample new industries were screened for factors of desirability and comparative advantage.

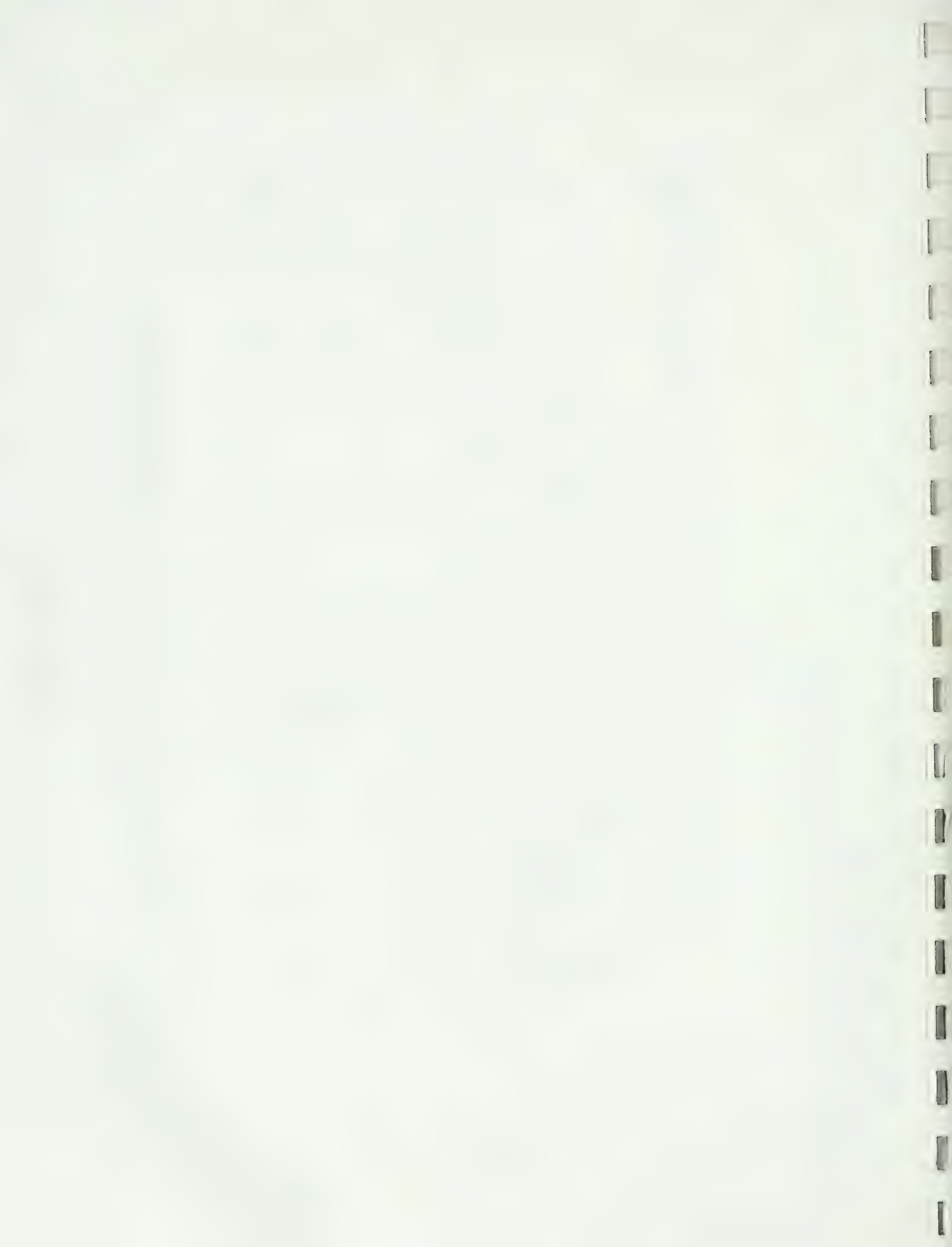
DESIRABILITY AND COMPARATIVE ADVANTAGE—ANCHORS

INDUSTRY	DESIRABILITY										COMPARATIVE ADVANTAGE			
	Current employment Thousands	Percent wages	Average income \$ thousands	Projected long-term growth (% per Year)	Export orientation	Cyclicality/Volatility	Strength of potential linkages	Average business size	Environmental acceptance	New public services required*	Percent transportation cost	Advantages	Disadvantages	
Timber	9.1	21	19	4%	H	H	20	M	<	M	30-50	Basic resource	Nearby resources	
Coal	1.4	10	24	4.6	H	M/H	300	L/M	<	T	30-60	Basic resource	as/more	
Oil and Gas	4.6	9	23	1½	H	M/H	70	M	<	n.a.	65	Basic resource	competitive	
Hard Rock	2.7	13	24	2½-5	H	Split	300	L/M	<	—	40	Basic resource	Transportation costs high	
Tourism - Hotel/Motel	10.2	—	9	2.4	M	H	20	M/H	—	—	30+	Unique attractions	Only one major route	
- Eating Railroad	—	24	6	1	M	M/H	—	M/H	—	—	n.a.	"Bridge" location		
ANCHORS	7.4	35	23		M	M	n.a.	M/H	—	—				

* Available in manufacturing industry groups only

Note: Agriculture and water, although anchors, are excluded from the screen. Agriculture was not within the scope of the Project. Water development does not lend itself to screening in the same manner as other industries, since the case for water development rests more on supporting traditional industries and generating public revenues, and less on generating new jobs

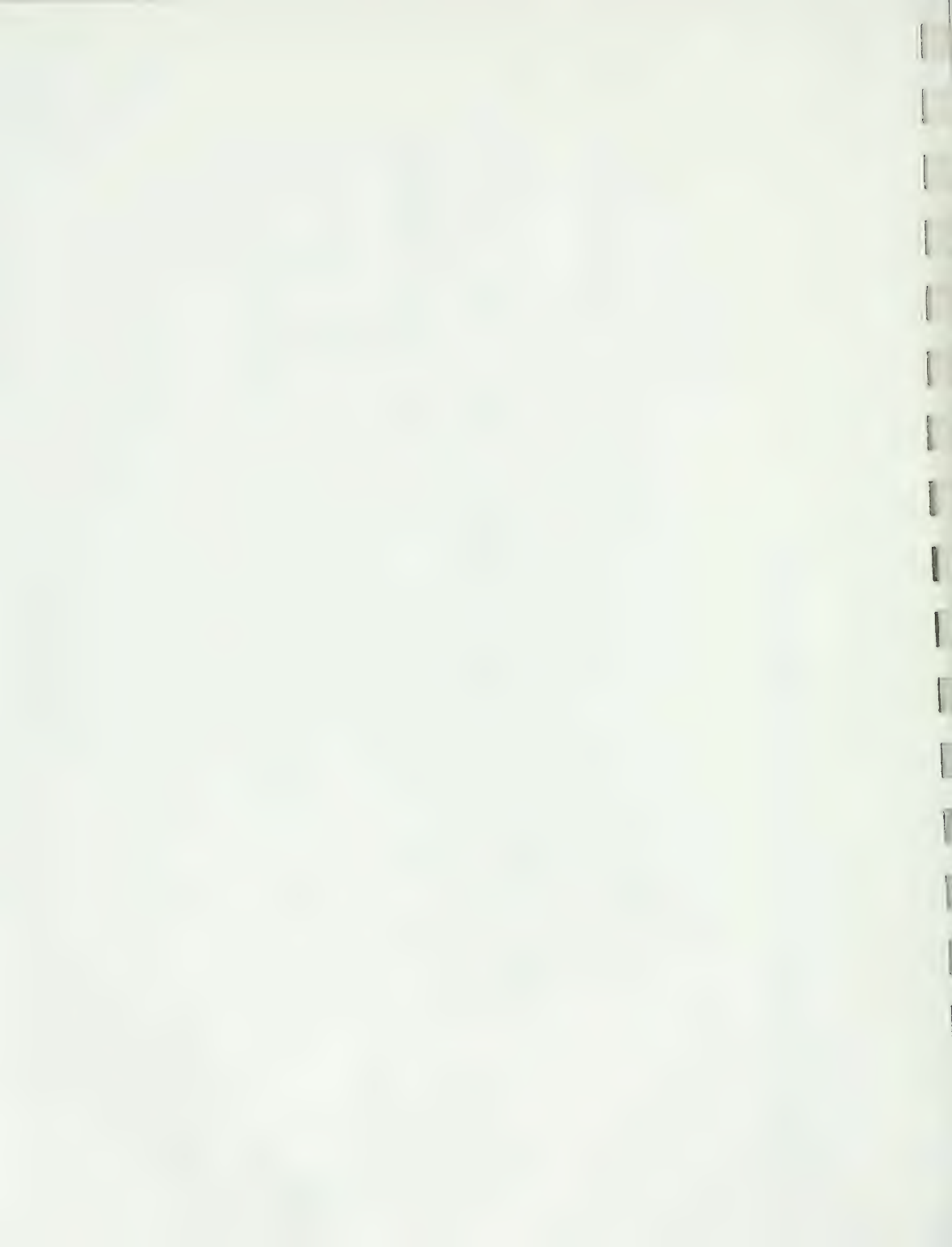
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DESIRABILITY AND COMPARATIVE ADVANTAGE—ANCHOR ENHANCEMENTS

ANCHOR ENHANCEMENTS	INDUSTRY	DESIRABILITY										COMPARATIVE ADVANTAGE				
		Current employment Thousands	Percent wages	Average income \$ thousands	Projected long-term growth (% per year)	Export orientation	Cyclicality/Volatility	Strength of potential linkages	Average project size	Environmental acceptance	Exceptional public revenue	New public services required	Percent transportation cost	Advantages	Disadvantages	
	Food processing	4.1	12	19	1-1½	M/H	L/M	M/H	20	M/H	M/H	M/H	L/M	L/M	Immediate access to raw material	Established centers elsewhere
	Pulp/paper	0.8	17	19	3-4½	M/H	M	H	100	M/H	H	M/H	L/M	L/M	Low electricity cost	
	Electricity	4.1	<10	21	0-3	M	L	H	150	L/M	H	L/M	L	?	Proximity to Canada	
	Metals processing (nonferrous)	1.9	10	22	2	H	M	M/H	350	L/M	L	L/M	L	L/M		
	Refining	1.0	3	24	2	H	M/H	M/H	300	M/H	M/H	M/H	L/M	L		

Source: See following pages

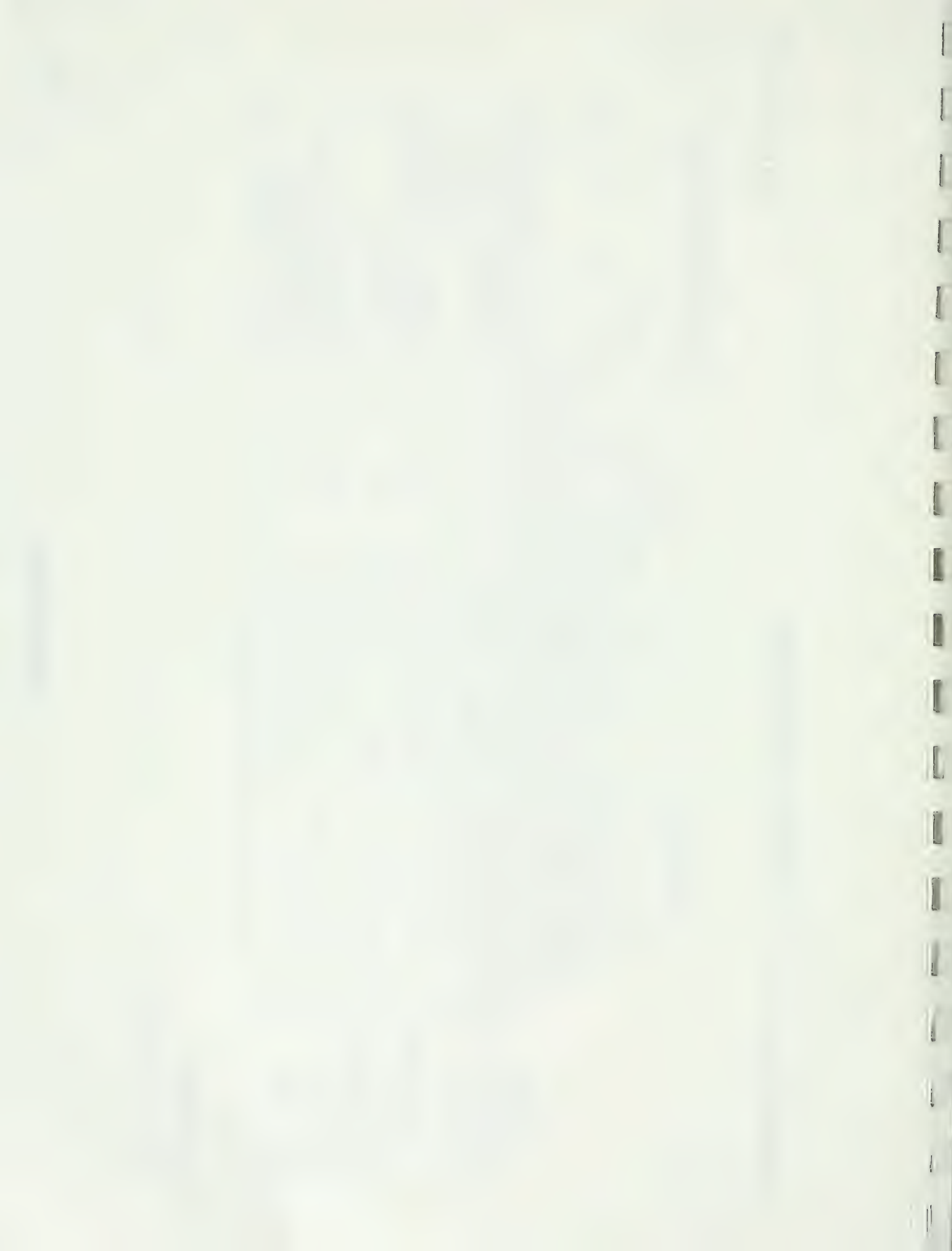


DESIRABILITY AND COMPARATIVE ADVANTAGE—NEW BUSINESSES

INDUSTRY	DESIRABILITY												COMPARATIVE ADVANTAGE		
	Current employment Thousands	Percent wages	Average income \$ thousands	Projected growth (% per year)	Export orientation	Cyclicality/Volatility	Strength of potential linkages	Average business size	Environmental acceptance	Exceptional public revenue	New public services required	Percent transportation cost	Advantages	Disadvantages	
NEW BUSINESS	Computers Electronics	30 23	12	15 0-20	H H	H M/H	L L	200 85	H H	L L	L L	L L	Lifestyle appeal Reliable power	Small existing technical community	
															?
	Oil field machinery	22	20*	7½	M	H	M	100	H	M	L/M	L/M	Growing re- gional market Lifestyle appeal	Removed from parts suppliers	
															?
	Analytical/optical instruments	26	15	3-4	M/H	H	L	75	H	L	L	L	Lifestyle appeal	Personal trans- portation difficult	
															?
	Software Architectural engineering	48 43	17* 20*	10-20 6	? ?	H H	L/M M	15 50	H H	Nil n.a.	L ?	L ?	Lifestyle appeal Lifestyle appeal Low land costs		
															?

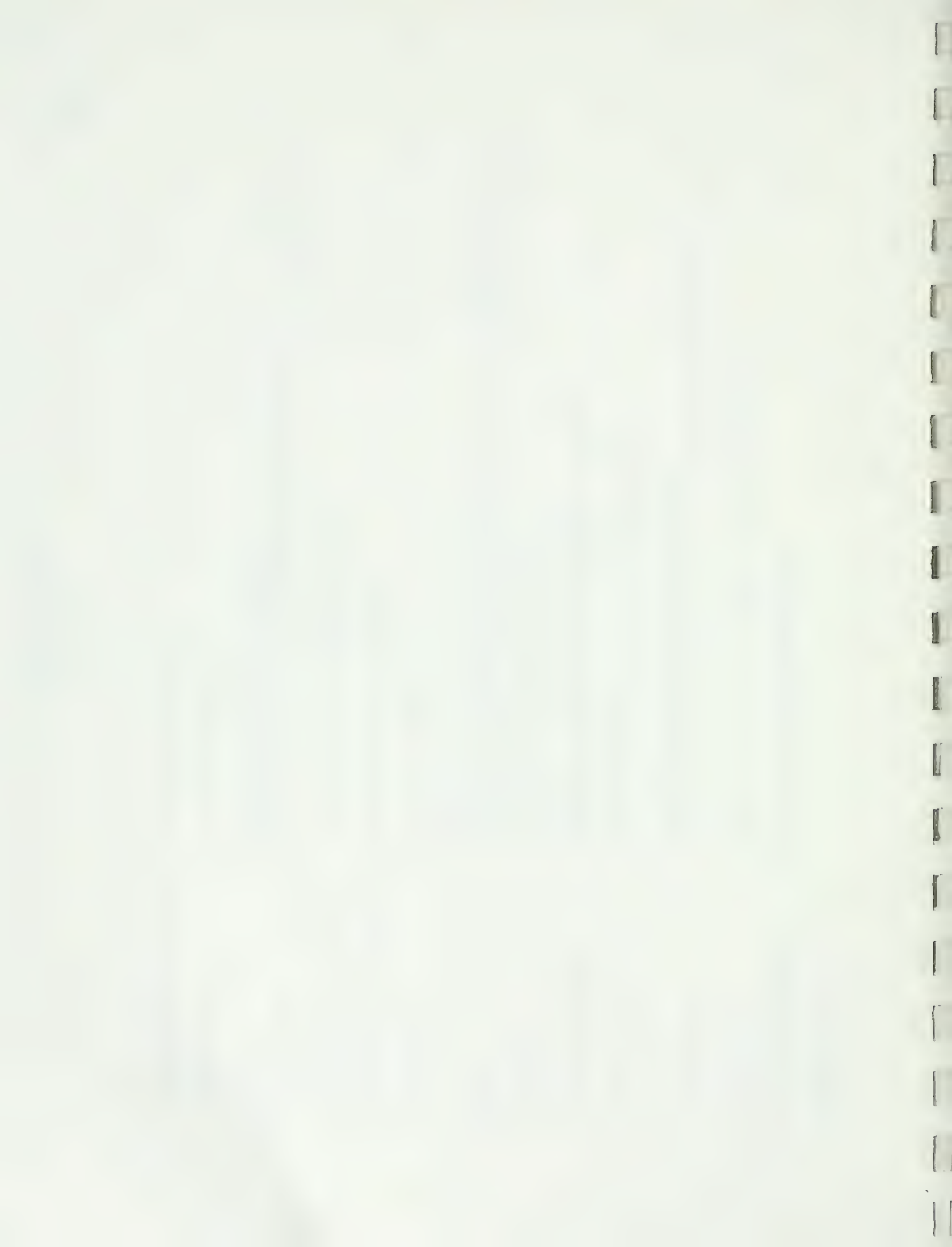
* National estimate

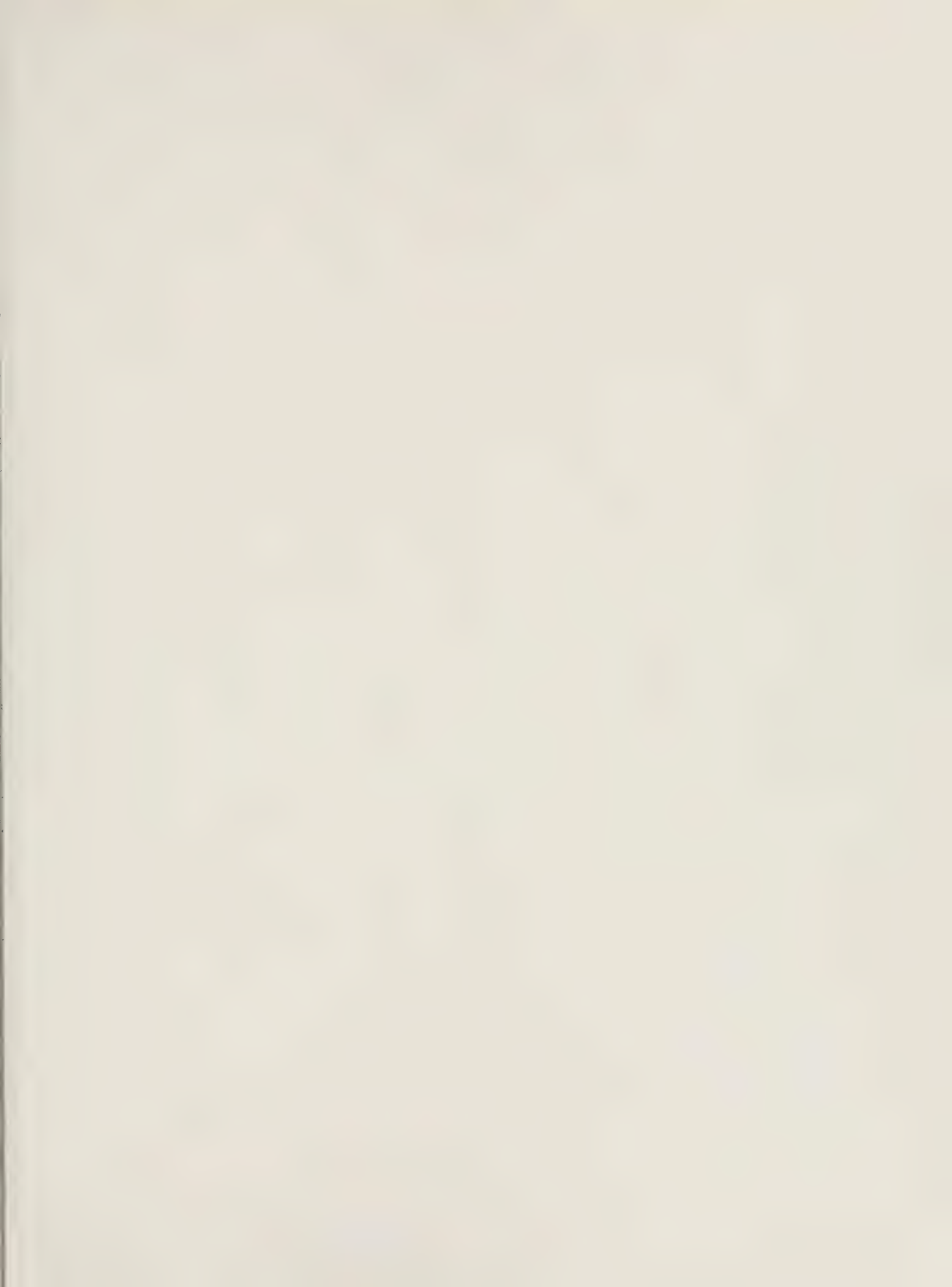
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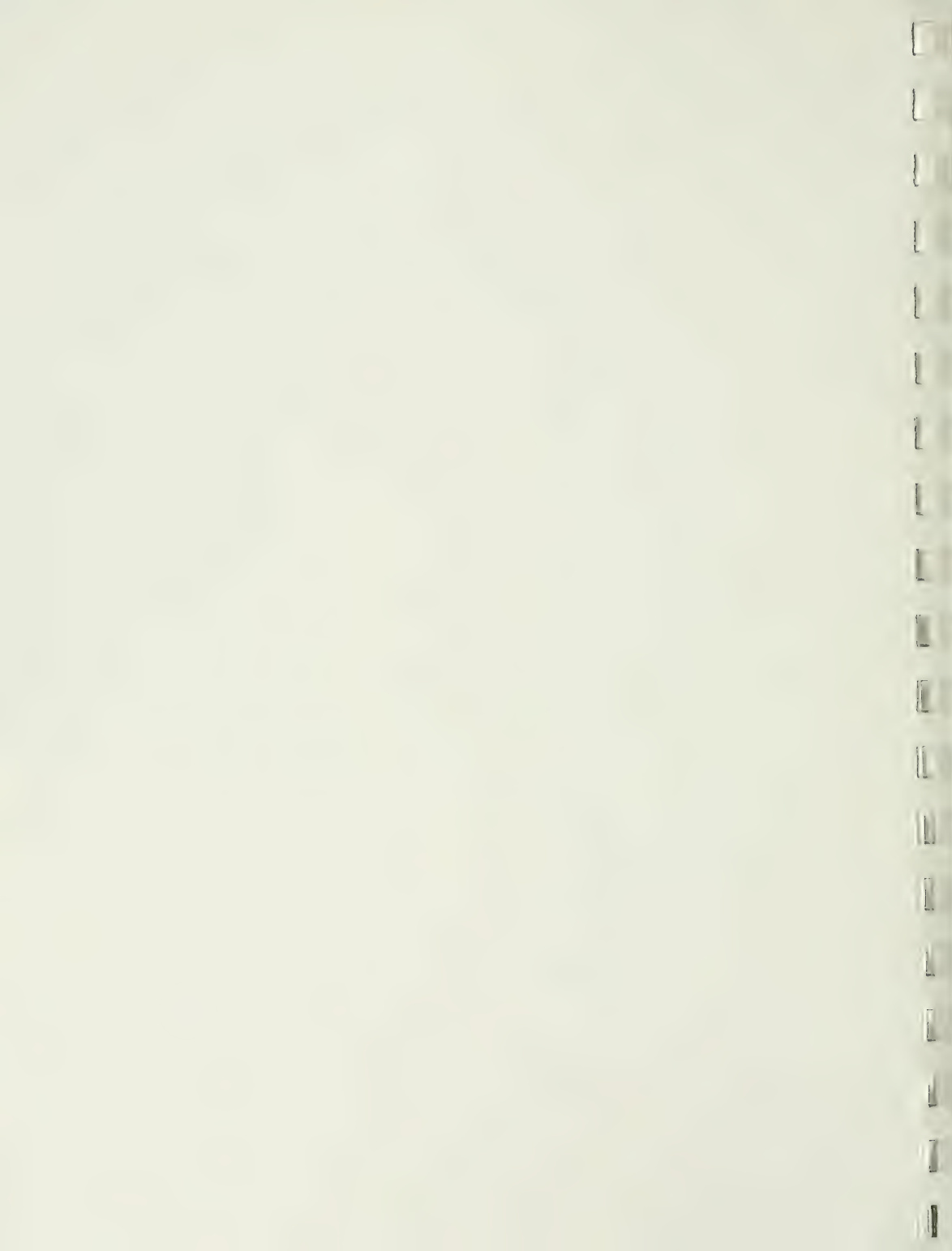


Sources for Screen

- Bureau of Economic Analysis, 1980
- Census of Manufacturers, Census of Service Establishments
- Bureau of Economic Analysis, 1980, state-specific, except as noted; Census of Service Establishments, adjusted for inflation
- Industrial Outlook, various industry-specific sources
- Evaluations based on available information on Montana
- Value Line, industry profitability "betas"
- Evaluation based on available information for Montana, including MSU Bulletin 682, Input-Output Model of the Montana Economy
- See "Percent Wages"
- Evaluations based on interviews
- Review of state tax receipts, interviews
- Roger W. Schmenner, Making Business Location Decisions, Table 2-4; note, however, that each case is specific
- Interviews, estimates
- Interviews, observations







7 - RECOMMENDATIONS

On September 23, 1982, the Steering Committee discussed, amended and passed 22 specific recommendations. The summary has two parts:

- A. A summary of recommendations and votes, divided into
- General Programs -
 - Anchor Industries - to help existing primary businesses
 - Anchor Enhancements - to build on Montana's basic resources with increased manufacturing and processing
 - New Businesses - to attract additional new enterprises to Montana

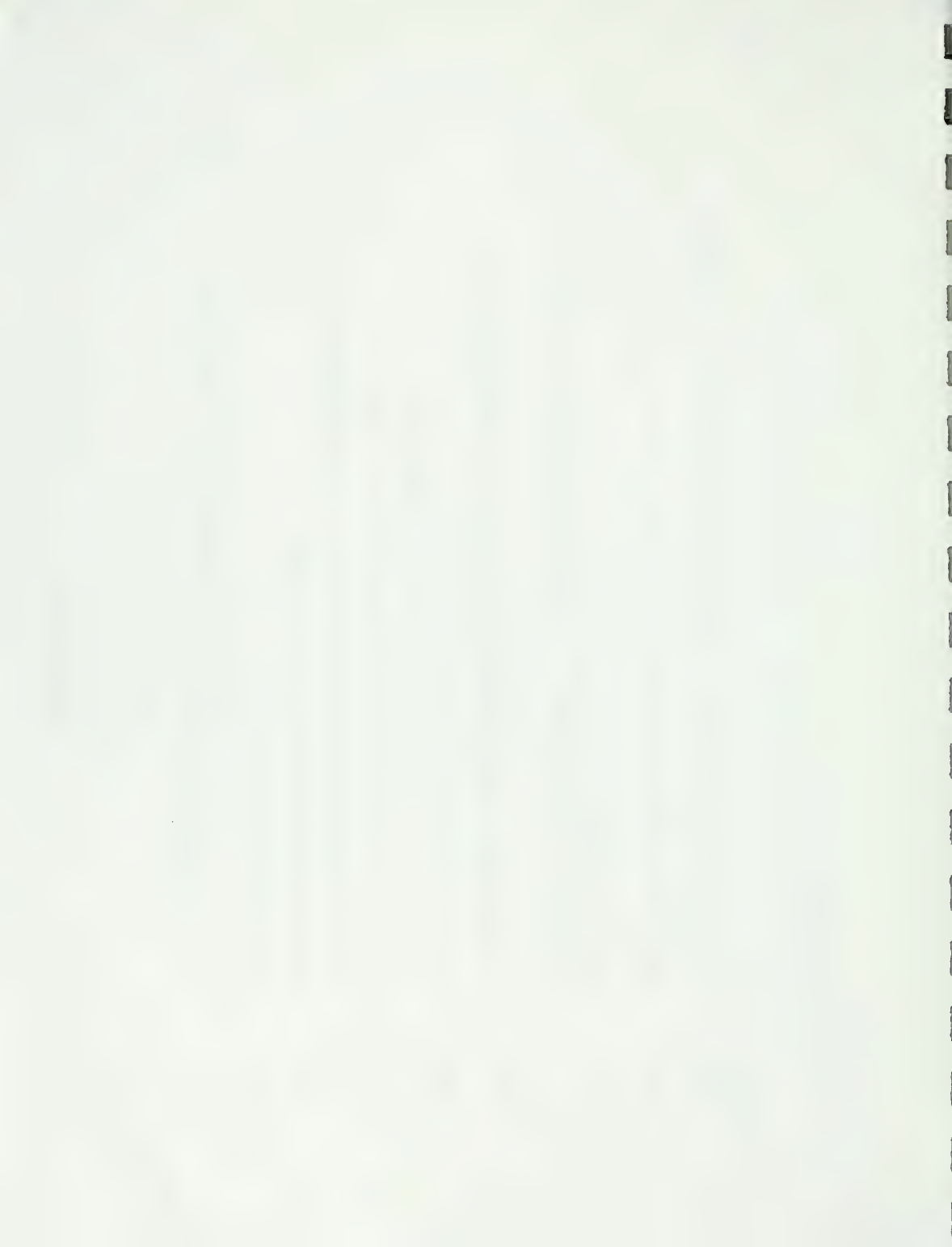
B. Detailed statements of each recommendation



RECOMMENDATIONS - GENERAL PROGRAMS

VOTE

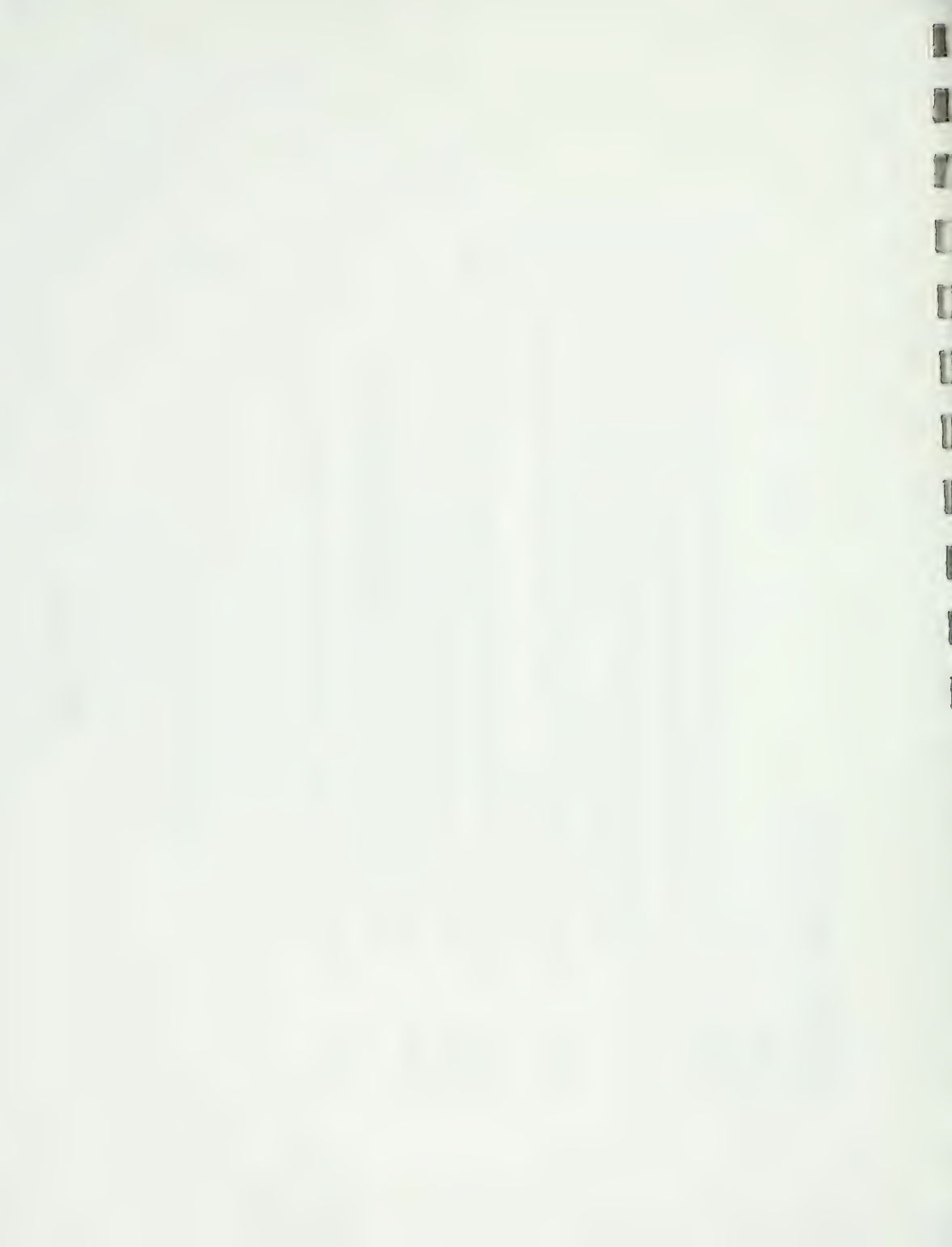
- Yes - 37
No - 1
- Unanimous
1. Increase the emphasis and funding for the Commerce Department to support a significant expansion in economic development programs
2. Create a privately sponsored "Ambassadors" group to participate and help fund business attraction efforts.
- Unanimous
3. Establish a Governor's Council on the Economy to advise on state economic policy; the Council should include government, business, labor, and public interest representation and a permanent expert staff.
- Unanimous
4. To supplement the Governor's Council, ensure funding for an in-state committee of economists responsible for informing and advising the Council and Governor on significant economic issues.
- Yes - 35
No - 3
- Unanimous
5. Require the Executive Branch, or proposing agencies or organizations, to prepare an Economic Impact Statement for major legislative proposals and administrative rule changes.
- Unanimous
6. Invest more in the transportation infrastructure - specifically more for highways.
- Unanimous
7. Simplify, automate, and standardize required paperwork e.g., withholding, workers compensation
- Yes - 35
No - 1
- Unanimous
8. Open up more government services to competitive bidding
- Unanimous
9. Support Free Trade Zones for Montana
- Yes - 30
No - 6
10. Undertake a comprehensive review of Montana's tax structure to identify significant implications for economic activity within the state.



RECOMMENDATIONS - ANCHORS

VOTE

- | | |
|--------------------|---|
| Unanimous | 1. Institute measures to streamline and accelerate the permitting process |
| Unanimous | 2. (Tourism) Significantly increase support for tourism, starting with more promotion budget |
| Unanimous | 3. Invite comments from corporations and interest groups for streamlining and accelerating the siting process (see No. 1 above) and seek a company proposal to serve as the initial test case for the revised process |
| Unanimous | 4. Appoint a public-private group to assess the likely impact of Forest Service policies on long-term timber policies |
| Yes - 38
No - 1 | 5. Define a program for pre-registering potential sites and obtaining basic environmental clearances |
| Unanimous | 6. Investigate how the state might actively encourage water development |
| Unanimous | 7. Explicitly allow for the option of multiyear phased compliance to changes in environmental regulations, except in cases of health emergencies, as an alternative to the variance process |
| Yes - 27
No - 7 | 8. Establish state-sponsored natural resource roads with limited access, to be paid for by users. |



RECOMMENDATIONS - ANCHOR ENHANCEMENTS

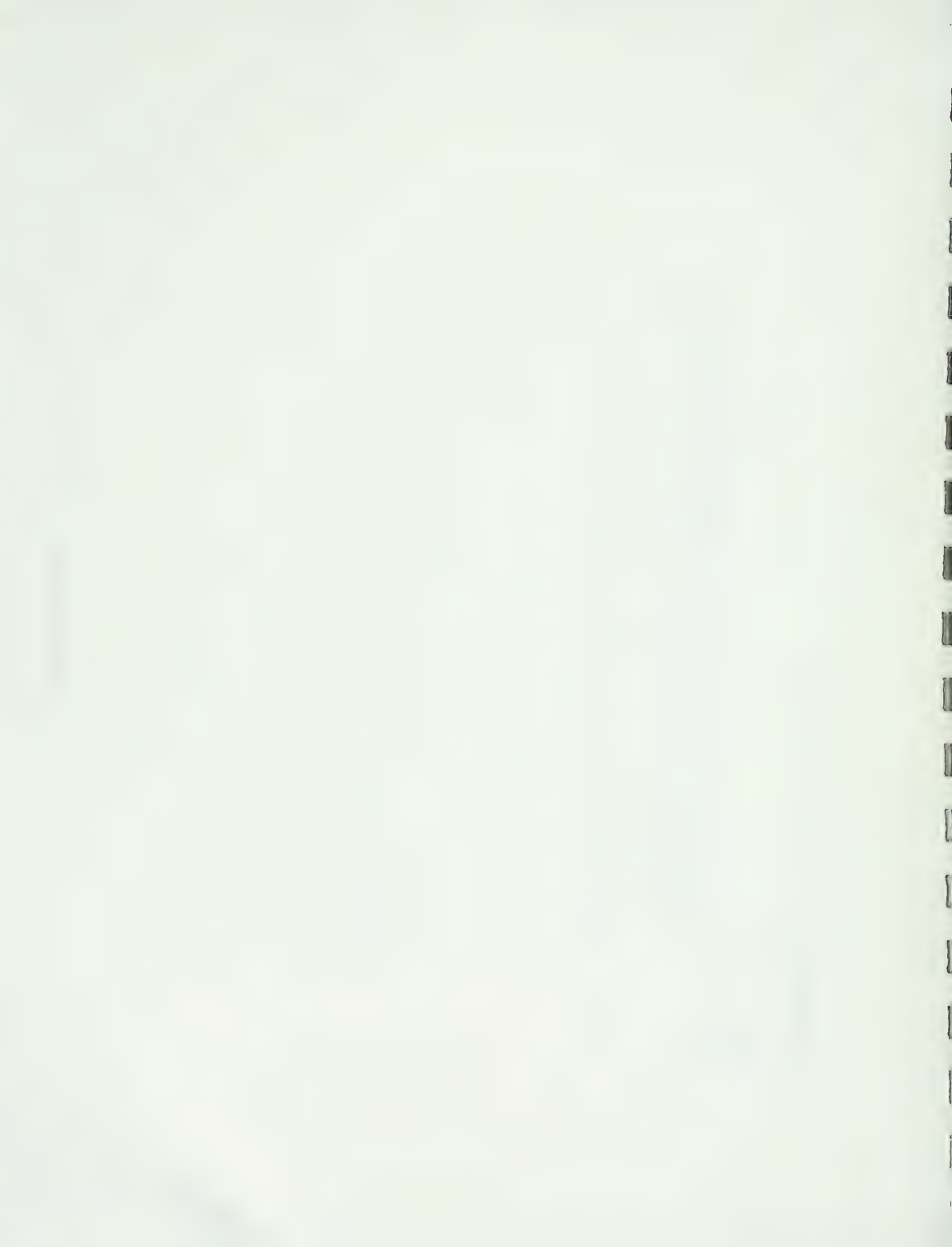
VOTE

Yes - 37

No - 1

1. Coordinate more systematically the priorities and activities of the educational system and public development policies; by creating a Science/Technology Committee and a special organization to commercialize university-developed technology while protecting the public's interests

Unanimous 2. Support the development of an initial integrated natural resource processing park



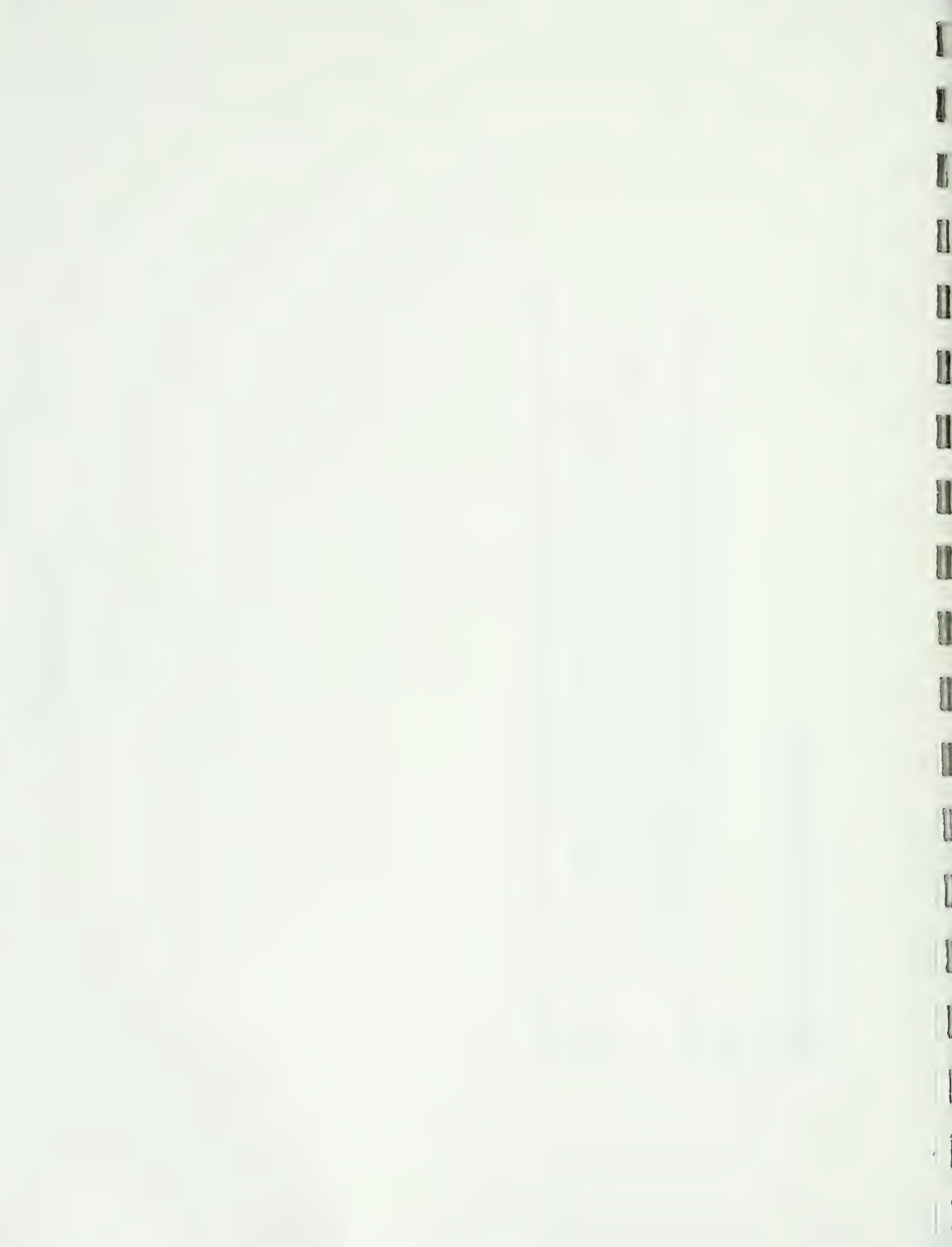
RECOMMENDATIONS - NEW BUSINESSES

VOTE

- Unanimous
1. Establish a set of specific qualifying criteria for targetting particular types of new or expanding businesses.
 2. Develop capital assistance programs specifically targeted for qualified applicants.
 - Revitalize the (private) Development Credit Corporation of Montana
 - Investigate additional means for encouraging more investment in qualified projects.

Yes - 35
No - 3

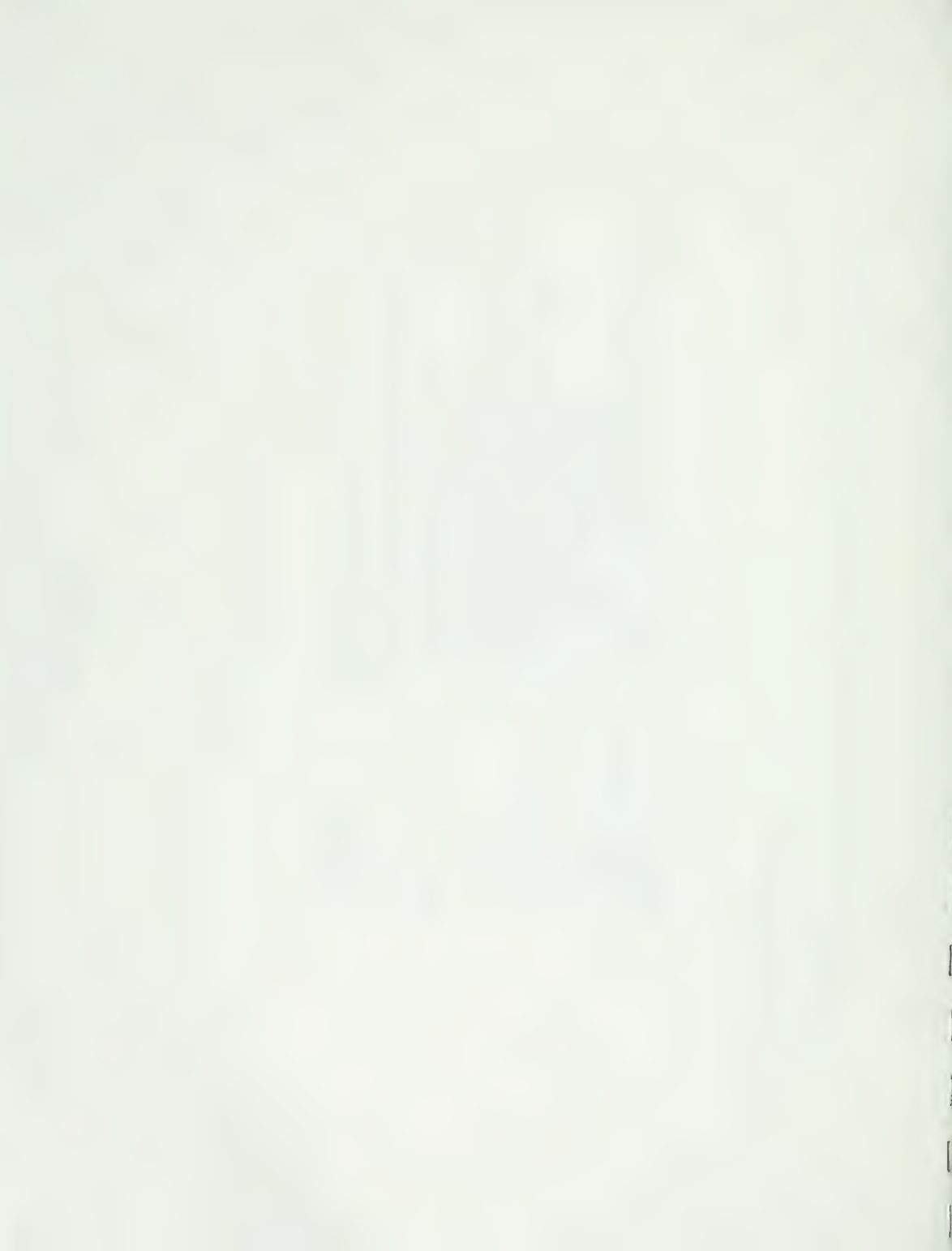
Unanimous



The Steering Committee reviewed seven "development paths," but rejected selecting one as premature.

DEVELOPMENT PATHS

<u>Short title</u>	<u>Example</u>
International partnership	Develop formal relationships with Alberta, Japan, etc.
Self-help	Invest heavily in education and R&D
Fixed to liquid assets	Develop extractive industries for jobs, public revenues
Subsistence	Accept slower growth, lower per capita incomes and reshape public policies accordingly
Zone	Establish industrial and nonindustrial areas
Tourism	Develop Montana as a world-class tourist destination
Entrepreneurial	Create an entrepreneurial class



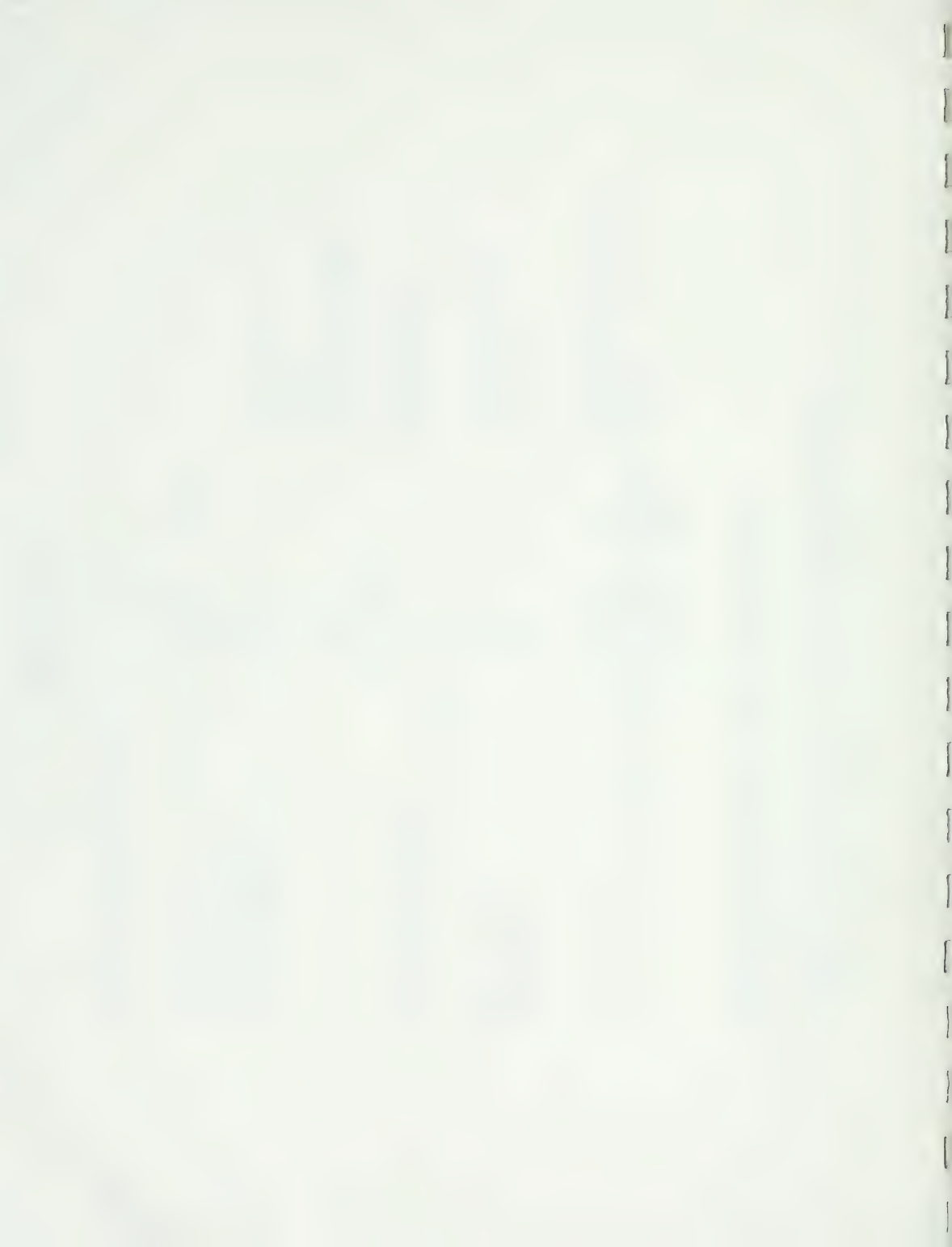
The total cost of the recommendations would be about \$5.00 per Montanan.

APPROXIMATE OUT-OF-POCKET COSTS OF RECOMMENDATIONS

Idea	Public cost \$ Thousands	Private cost \$ Thousands	Comments
Tourism support	1,500	350	Private \$350,000 funding depends on contributions and/or special assessment
Timber policy	80		
Site pre-registering	75		Could be shared
Water development	75		Study costs only potential major source of revenue
Coordinated educational/development policies	85*		
Capital assistance (study only)	50		Does not include capital subscriptions as cost
Strengthened Commerce	1,500		Includes grants for technical assistance, local development and other activities not listed separately **
Ambassadors Group		100	
Council on the Economy	100		Possible private sharing
Committee of Economists	100		
Tax Study	100		
Simplified paperwork	100		
Total	\$3,700	\$450	

* First year only; much higher second year

** Does not include state labor training



General Programs #1 - Strengthened Commerce Department*

VOTE

Yes-37

No-1

Issue/Problem Addressed: State and local governments in Montana have not funded, staffed, or developed business development assistance programs comparable in scope or effectiveness with other states in the region. The experience of other states has demonstrated that well staffed and funded business assistance programs do help the business community prosper and provide new business and job opportunities. Charts and comparisons presented at earlier meetings illustrated that only \$367,600 or 5 percent of the budget of the Department of Commerce, is devoted to Business Assistance Programs and that 40 percent of these funds are Federal funds which are being eliminated from the 1984 Federal budget. Only 5 of the 160 staff members of the Department of Commerce actually provide business development assistance.

Current Policy/Procedures: The level of services provided in Montana is significantly less than that available in virtually all other states including our neighbors. Limited financial and staff resources permit the state to provide only minimal services to the business community in the following ten areas.

Business Licensing Assistance: The Business Licensing Center, created by the 1981 legislature, develops and distributes information concerning states licensing requirements for starting and operating a business and provides assistance to facilitate compliance with state requirements.

Business Planning Assistance: The Department of Commerce with Federal EDA funds and the Private Industry Council with Federal CETA funds both provide very limited technical assistance to small business and fund marketing, product development and management studies for individual businesses. Less than 30 firms will receive direct financial assistance in 1982 from the Department of Commerce or the Private Industry Council. Approximately another 50 firms will receive some type of technical assistance.

Job Training: Montana is one of 16 states without a state funded job training program. All job training programs operated by the Department of Labor and the Private Industry Council are Federally funded and must comply with restrictive guidelines, criteria, and procedures required by the Federal government. It is difficult to use these funds to train workers for new

* Is provided for by a strengthened Commerce Department.

General Program #1 - Strengthened Commerce Department (Cont.)

or expanding businesses. The university system, community colleges and vocational/technical centers do not have a coordinated approach to providing job training for Montana businesses.

International Export Assistance: Export of agricultural products is promoted by both the Department of Agriculture and the Montana Wheat Research and Marketing Committee in Great Falls. A part-time state employee handles all other international trade matters including technical assistance i.e., the mechanics of exporting. The level of staffing is significantly below that of neighboring states and provinces.

Economic Research: The Department of Commerce does not have staff for preparation of economic research, has discontinued publication of an annual report on economic conditions in Montana, and does not publish economic or business statistics. The University of Montana Bureau of Business and Economic Research conducts a substantial research and publication program, but it has only limited ability to forecast economic developments.

Business Management Assistance: The schools of business within the university system provide a broad range of management training for Montana businessmen, but there is virtually no coordinator or systematic publicity for these programs.

Development Finance: Montana is one of only a few states that does not have any programs for helping to finance business development. The state also does not have any staff trained to help businessmen prepare financial plans and develop financing packages.

Publications: Except for a planned handbook on How To Start a Business in Montana, and a monthly newsletter, the department does not have a budget for publications to assist small businessmen. Many states have extensive publication programs to prepare publications to help businessmen with issues such as foreign trade and financing a business.

Assistance to Local Development Corporations: The state has only a very limited capacity to help create and strengthen local development corporations. Both the Department of Commerce and the Private Industry Council, using Federal funds, have provided some assistance to community based local development corporations. The Department of Commerce is developing a program to provide community leaders with training in economic development skills.

General Program # 1 - Strengthened Commerce Department (Cont.)

Business Recruitment: The state's new business recruitment brochure was published with Federal funds. The State has no advertising budget and has very limited funds for responding to inquiries or for soliciting potential businesses. The small state staff does provide personalized location services to businesses who request assistance.

Recommendations: The state should significantly expand the scope and quality of services provided to business. These services should be adequately funded by state revenue and should not depend on Federal grants. Salaries should be competitive enough to attract and retain experienced professionals. Activities and programs to be pursued include, but are not limited to:

- ¶ The Business Licensing Assistance program should be continued and a study should be conducted to combine licenses.
- ¶ The Business Planning Assistance program should be significantly expanded.
- ¶ A State funded Job Training program should be established, and the university system should coordinate job training provided by the university system, community colleges and vocational/technical centers.
- ¶ Additional measures to attract new businesses be devised and funded
- ¶ Staffing for International Export Assistance should be increased.
- ¶ An expanded program of economic research in cooperation with the university system should be funded.
- ¶ A system of coordinating and publicizing business managements training programs should be established by the university system and the Department of Commerce.
- ¶ The Department of Commerce and local development corporations should have staff members trained in business finance to provide technical assistance to Montana businessmen.

General Program #1 - Strengthened Commerce Department (Cont.)

- ¶ An adequate program of business publications should be funded.
- ¶ The state should provide matching funds operating grants to local development corporations to help establish them, and the state should increase training and technical assistance services to local development corporations.
- ¶ The state should provide adequate staff for business recruitment activities, finance some selective advertising and direct mail targeted promotion efforts.

Rationale/Pros-Cons: Pros - Montana's businesses deserve to have the same level of assistance available to businesses in other states. Professional, cost effective assistance will help existing business to expand and develop new markets as well as help new businesses to develop. Business assistance can help reduce the number of businesses who fail because of unwise assumptions or lack of experience. An active program of working with local development corporations serves as the necessary link between the state programs and the local community, especially in areas of recruitment and business planning assistance.

Cons - Because the same level of technical assistance cannot be provided to all Montana businessmen, some opponents feel it is improper to use public money to fund services to any business. Other opponents question the effectiveness of any program of governmental assistance. Another objection is based on and expansion of governmental services.

Financial Costs: Significant improvements in the level and quality of business development services to levels competitive with surrounding states would require a substantial increase in state funding.

General Programs #2 - Ambassadors Group

VOTE

Unanimous

Issue/Problem Addressed: Effective solicitation of out-of-state business and effective hosting of business executives interested in the state requires the cooperation of the Montana business community, government, labor, and the university system. Many effective techniques for contacting and working with interested businesses are not appropriate for public funding.

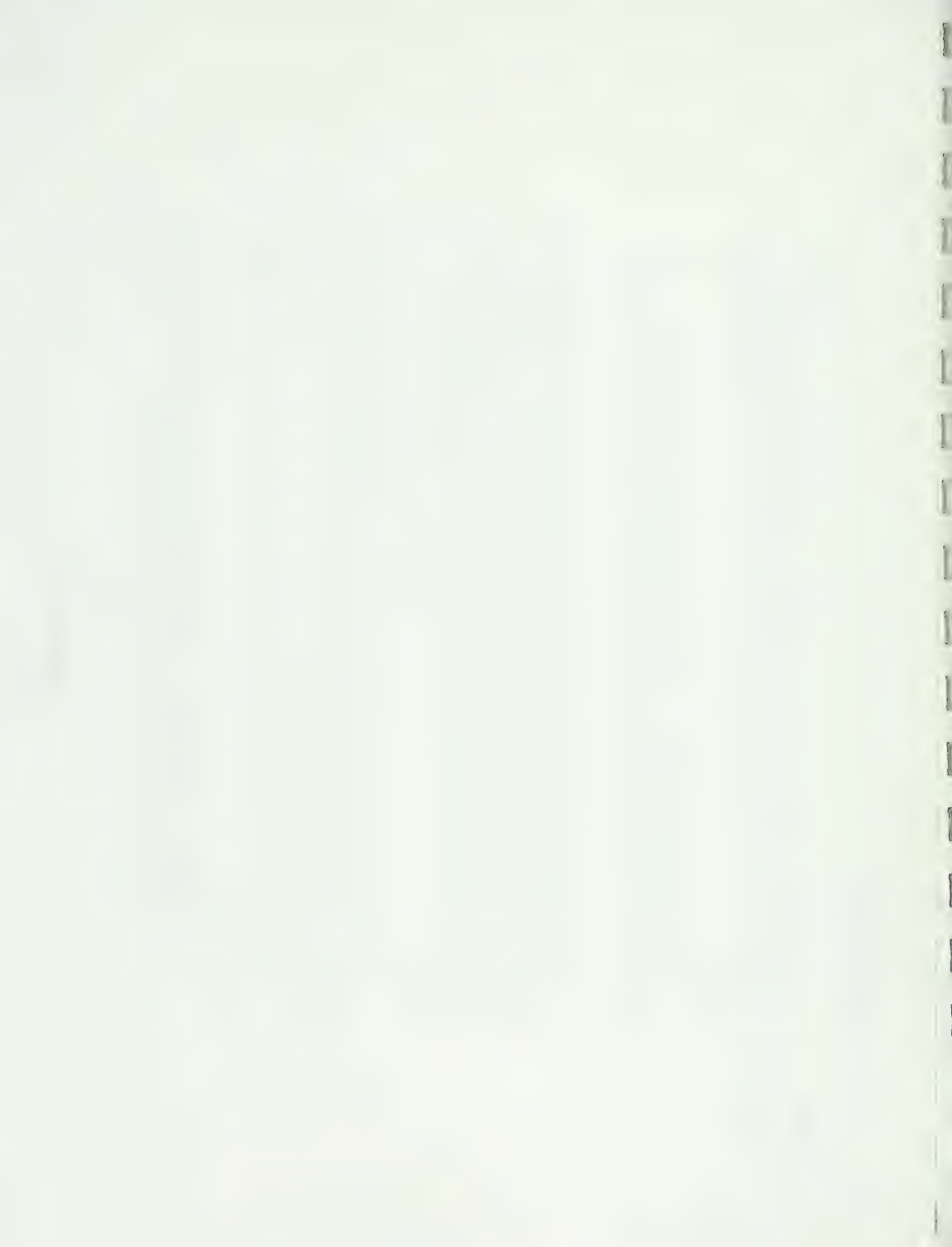
Current Policy/Procedures: No formal system exists in Montana. Individual corporations, businessmen or the Montana International Trade Commission are often asked to sponsor individual events or host visiting businessmen.

Recommendations: (1) Incorporate a business-labor group, "Ambassadors Group", to carry out these functions with an appropriate Board to oversee activities. (2) Support the effort through such existing organizations as the State Chamber of Commerce, Montana Bankers Association, Montana International Trade Commission and other associations. (3) Establish a proposed schedule for 1 year, train participants, and develop appropriate literature. (4) Develop a list of target individuals, companies, and industries. (5) Enlist the active assistance of government and University officials, including the Governor, to participate as useful and necessary.

Rationale/Pros-Cons: Pros - Recruitment efforts are a significant and important part of a state's recruitment program. Business community, labor, and university representatives add a perspective which public officials cannot provide. Further, if only public funds were used, Montana's representation would be minimal.

Cons - Some feel that recruitment is not effective or that official state efforts are all that is necessary.

Financial Costs: Staff, expenses and promotion materials; total budget could ultimately amount to \$100,000 annually; \$100,000 is a good initial budget. The program costs would be financed by contributions from Montana businesses and trade associations.



General Program #3 - Governor's Council on the Economy

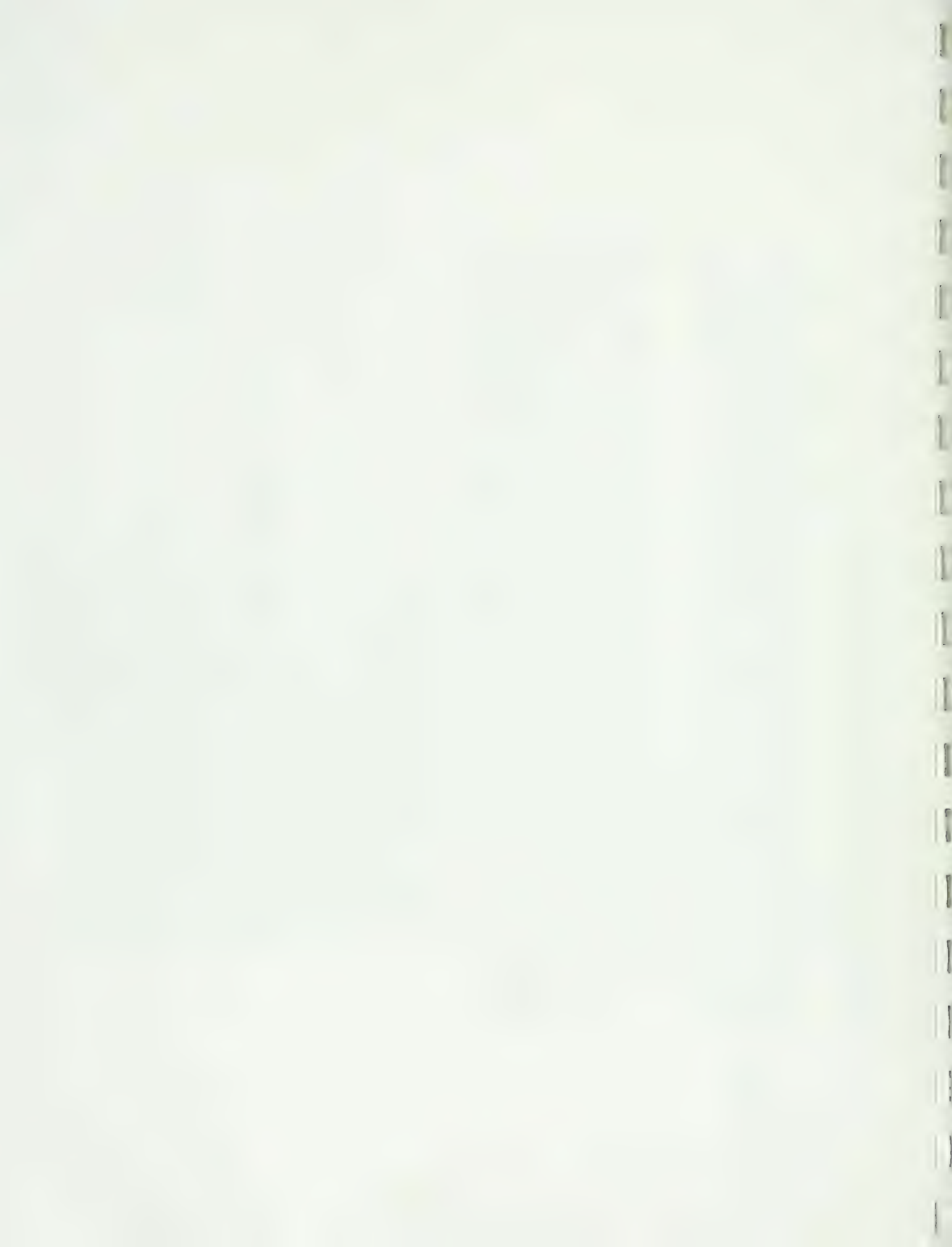
VOTE

Unanimous

Issue/Problem Addressed: Meaningful economic development will require a long term, consistent, and coordinated commitment by government, business, labor, and the university system to achieve common economic goals and resolve problems. The Montana Economic Development Project, along with other efforts, constitutes a significant first step towards a cooperative program. But it is only a first step. No permanent group exists to promote job-creating economic development.

Current Policy/Procedures: An adhoc collection of advisory committees and interagency coordinating committees have evolved during the last 2 years to provide private sector advice and to coordinate state economic development programs. There has been informal coordination of these groups by the Department of Commerce, but no real formal effective communication or coordination. There is a real need for coordination and common membership. The three major groups include the cabinet teams on Economic Development and Natural Resources, the Steering Committee of the Montana Economic Development Project and the Governor's Small Business Advisory Council. A partial list of the existing independent committees include:

- Montana Economic Development Project Steering Committee
- Governor's Adhoc Committee on Agriculture
- Governor's Tourism Advisory Council
- Governor's Employment & Training Advisory Council
- Wilderness Advisory Committee
- State Data Advisory Council
- NRAG Study of Instate Investment
- State Occupational Information Coordinating Committee
- Montana Career Information System Advisory Committee
- Governor's Transportation Advisory Council
- Rural Area Development Councils
- Governor's Small Business Advisory Council
- Private Industry Council
- Community Development Advisory Committee
- Forest Resource Advisory Council
- Montana Economic Development Association
- University Committee on Economic Development



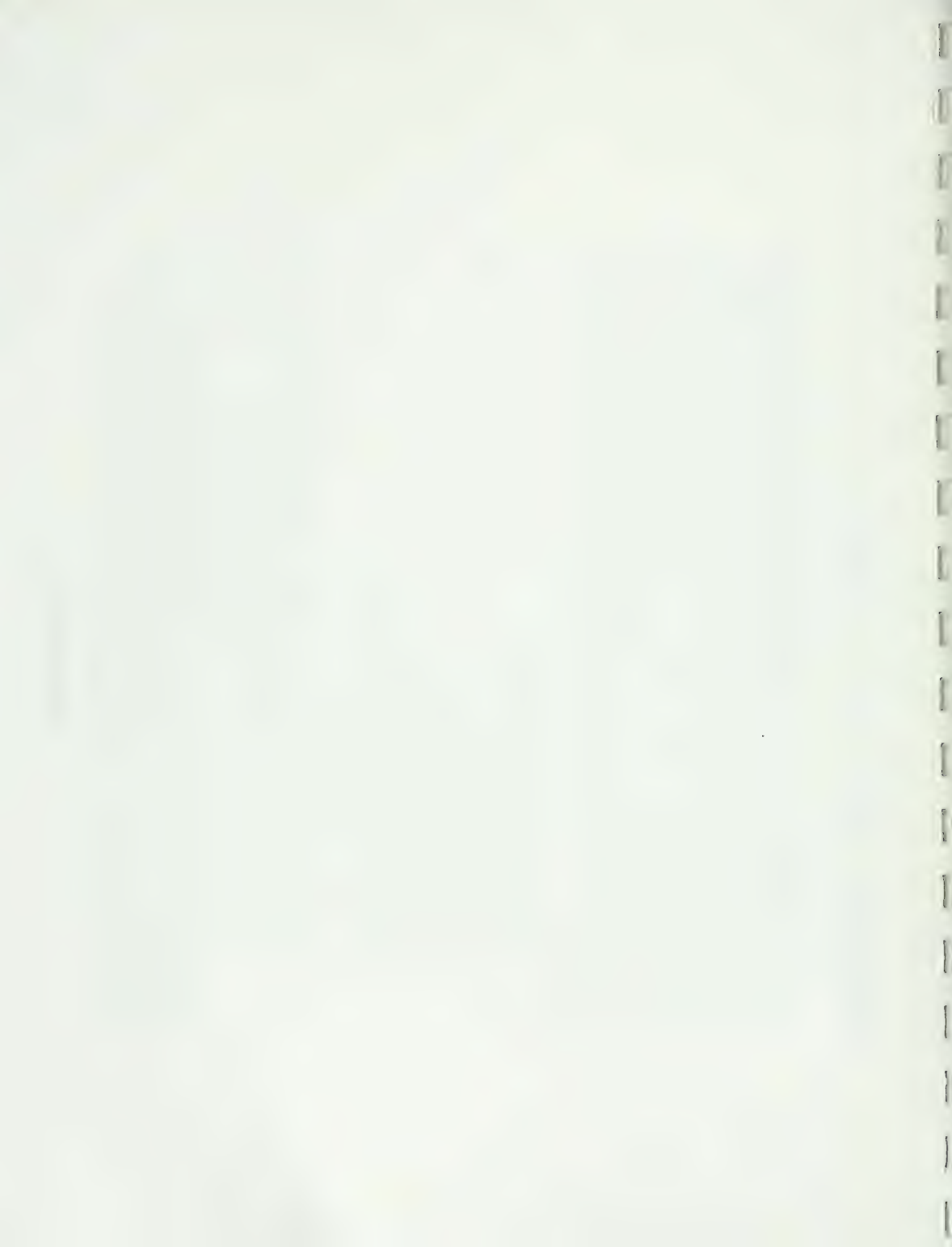
General Program #3 - Governor's Council on the Economy (Cont.)

Recommendation: The current adhoc collection of advisory committees should be replaced with a permanent Governor's Council on the Economy with the main subcommittees listed below. This council should be created by legislation and provide for continuity and stability across administrations. The Governor's Council would contain representatives of all major industries, the timber, agricultural, and financial communities, labor, conservationists, and appropriate state agency directors (other sector representation may be included with its appropriate committee) but would be limited in direct participation to a manageable size. The Council would meet at least quarterly and it would: (1) coordinate the work of standing and special committees; (2) advise the Governor on the preparation of a biennial economic development plan; and (3) conduct special studies effecting economic development. Initial standing permanent committees of the Council may include:

- Adhoc Committee on Agriculture
- Manufacturers Advisory Committee
- Committee of Economists
- Development Finance Committee
- Tourism Advisory Committee
- Science and Technology Committee
- Labor Force Advisory Committee
- Montana Economic Development Association
- Forest Resource Committee

The permanent committees would have separate membership and their chairman would serve on the Governor's Council as a method for providing communication and coordination. Adhoc committees would be created periodically to deal with other issues.

During its first biennium 1983-84, the Council's major focus would be on: (1) establishing the Committee of Economists and Science and Technology Committee described in the accompanying recommendations; (2) conducting a study of development finance as contemplated in recommendation New Business #2; (3) supervising a study of the commercial sales of water as anticipated in recommendation Anchor #6; and (4) undertaking the tax investigation contemplated in General Programs #10.

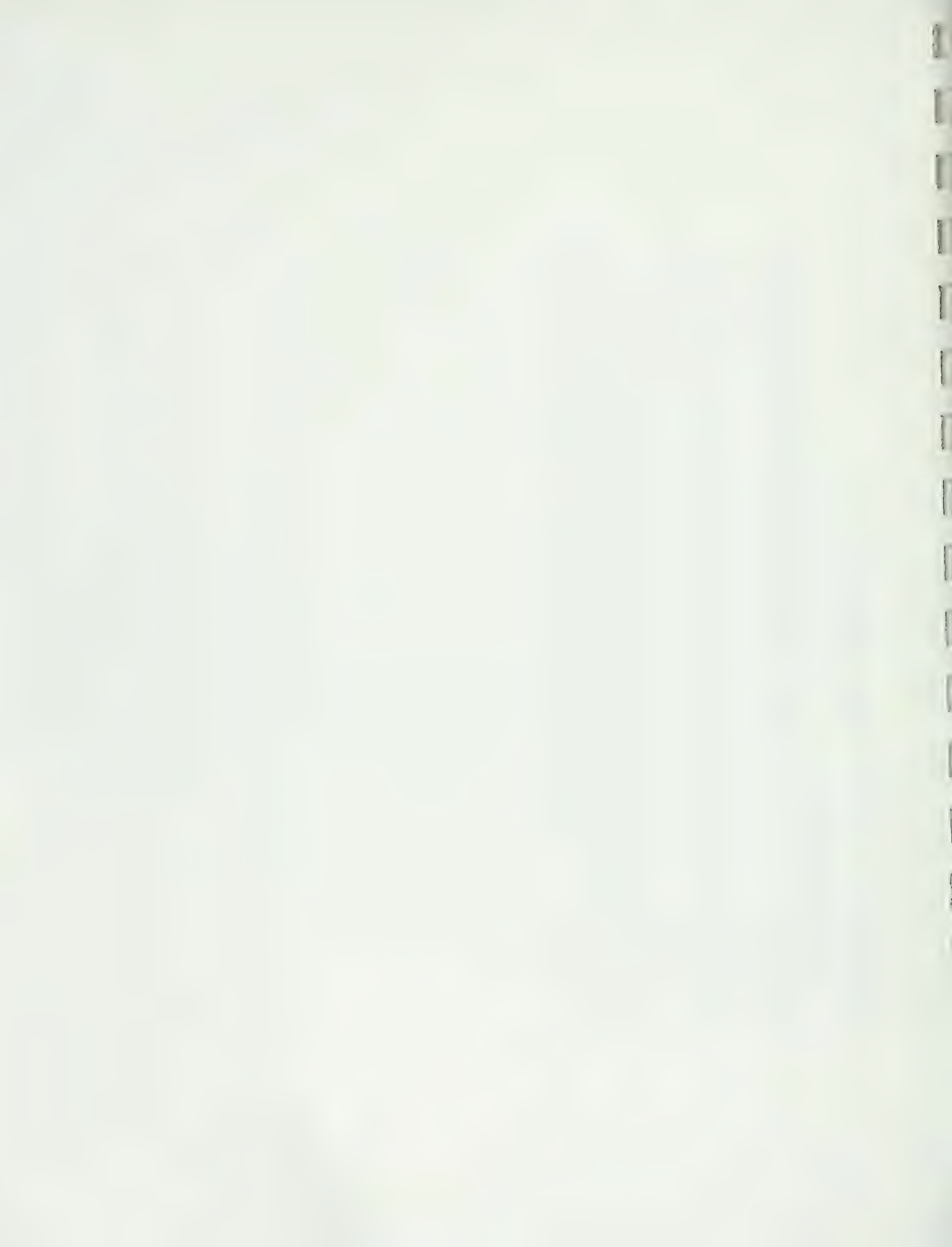


General Program #3 - Governor's Council on the Economy (Cont.)

Rationale/Pros-Cons: Pros - A strong, effective, well financed Governor's Council on the Economy can articulate an economic development program and provide continuity and coordination.

Cons - Another committee or council would not help economic development since real development depends on decisions by individual businessmen and national economic conditions.

Financial Costs: It is anticipated that the Council would require at least two staff members. Other costs would include travel for council members, routine studies, and publications. It is difficult to anticipate that the Council could effectively operate on less than \$100,000. The costs of major components like the Committee of Economists and the Science and Technology Committee are listed under those separate recommendations.



General Program #4 – (Supplement) Committee of Economists

VOTE

Unanimous

Issue/Problem Addressed: Currently, economic data and analysis used in government and private decision-making cannot be relied upon to be timely, and consistent among sources.

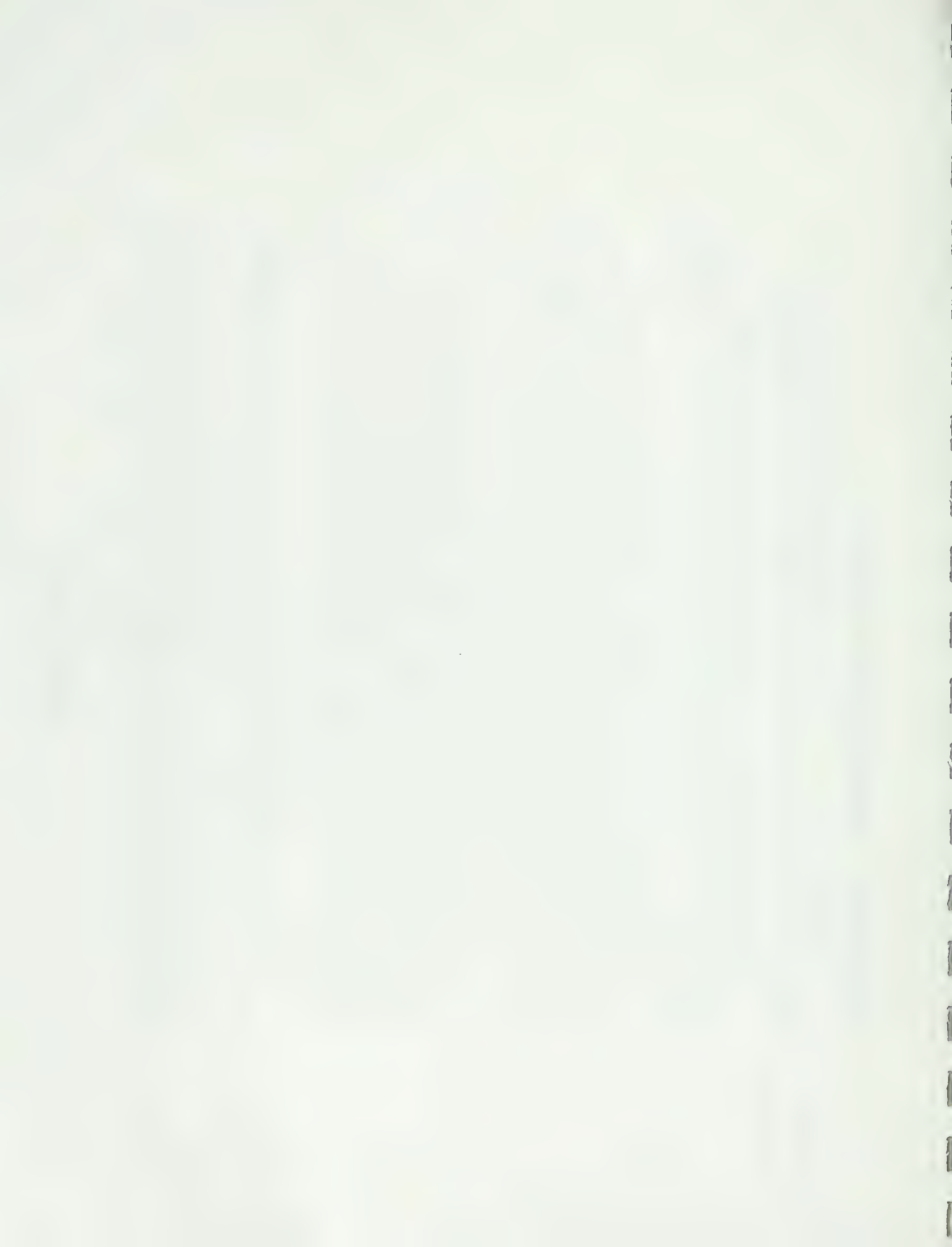
Current Policy/Procedures: No broad based or professional economic analysis is now provided to state decision-makers on a regular, formalized basis. Very little current state and regional economic data, and no short-term projections of economic activity, are available on a regular basis.

Recommendation: Establish a Committee of Economists, using resources already available in the University System. The Committee would work with the Governor's Council on the Economy; to develop a state economic reporting and forecasting system; to brief the Governor and his designees regularly on current economic conditions and the outlook; to serve as liaison between the University system and state government researchers; and to assist in determining state government research needs and in upgrading research capability.

Rationale/Pros-Cons: Pros - State government needs continuous assessments of the economy's performance and outlook. The information generated would be useful to firms considering expanding or locating in Montana. In addition, closer cooperation between University system and state government employees could help raise the level of economic analysis in the state. Finally, the Bureau of Business and Economic Research (BBER) at the University of Montana, already in place, has a number of the important components of the proposed forecasting system. By building on this base, extensive research can be provided at modest cost.

Cons - Some argue that economic advice should come from a broader spectrum than the University system, others suggest that current approaches are adequate.

Financial Costs: The Economic Research Subcommittee of the University System and the Economic Development Committee have estimated the cost of developing and maintaining a Montana economic forecasting system, analyzing the data, working regularly with state government, and preparing quarterly and annual reports on the economy at \$100,000 per year.



General Programs #5 - Economic Impact Statements

VOTE

Yes-35
No-3

Issue/Problem Addressed: Legislative and administrative rule changes can bring about major economic consequences, without due consideration.

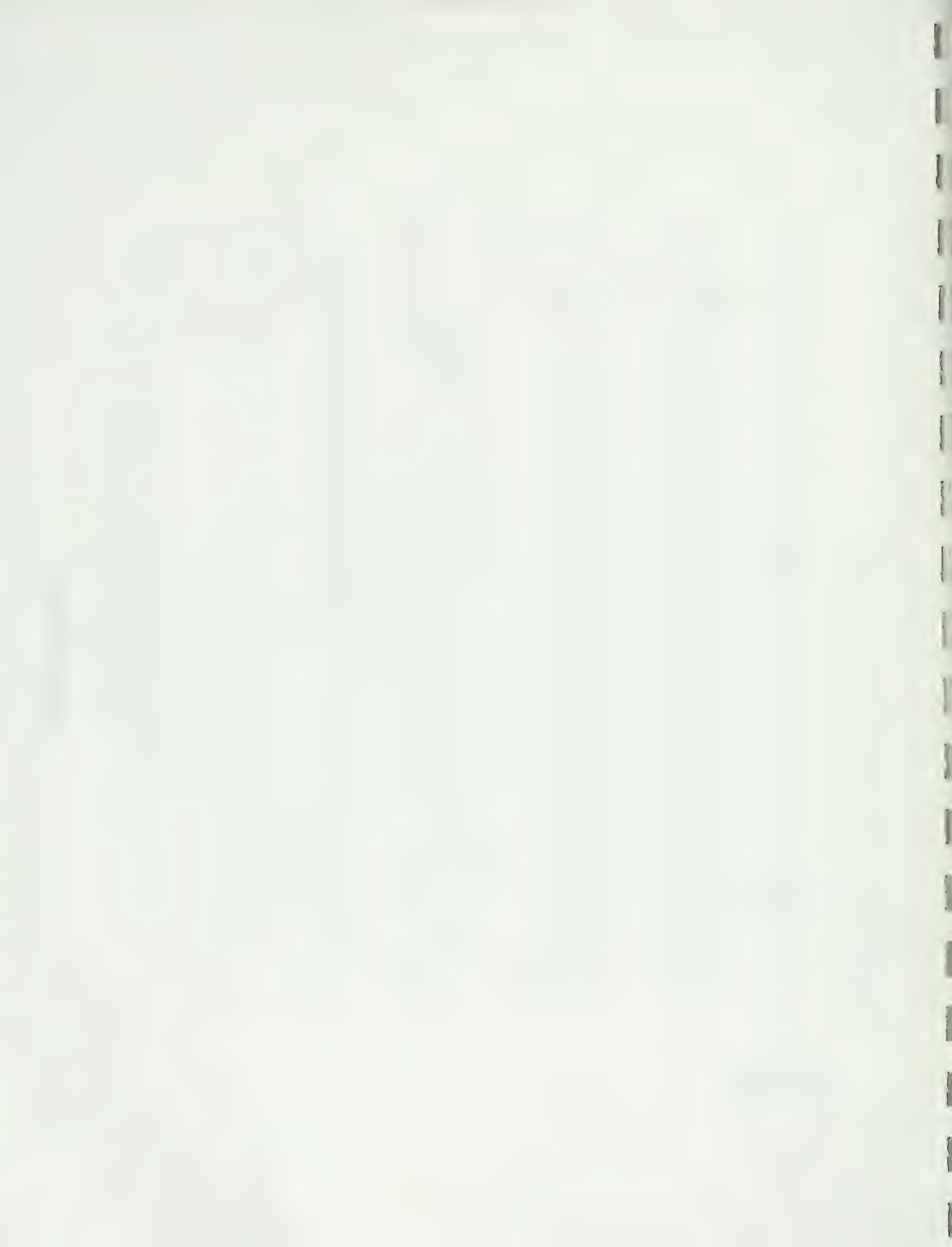
Current Policy/Procedures: Economic impact statements for major projects are required, and have become quite good, as the Environmental Impact Statement (EIS) for the Kootenai Falls Dam demonstrates. There is no requirement to summarize economic consequences of legislative rule changes, except as they might affect government expenses.

Recommendation: The Executive Branch is urged to consider ways of giving proper attention to the economic impact of various state government legislative and executive actions, possibly in conjunction with the Governor's Council on the Economy and the Committee of Economists. All major legislation and rule changes should be accompanied by economic impact summaries.

Rationale/Pros-Cons: Pros - It has become increasingly important that state government be aware of possible economic impacts of new legislation and/or new or different administrative rules. The proposed Governor's Council on the Economy and the Committee of Economists might be useful in helping determine when economic impact statements are needed and in devising ways to improve the quality of those statements.

Cons - Impact statements will just contribute to red tape and paperwork. Current testimony and hearings procedures already allow for all significant impacts, including economic ones, to be brought out.

Financial Costs: Cost of university system assistance included in the proposal for the Committee of Economists.



General Programs #6 - Infrastructure Investment - Highways

VOTE

Unanimous

Issue/Problem Addressed: With over a \$2 billion investment in 9,300 miles of highway, Montana needs to complete 68 miles of its 1,200 mile interstate highway system and repair approximately 2,600 miles of primary and 2,600 of secondary highway, according to the Department of Highways. At the same time, federal highway aid is being cut. Federal dollars obligated to highway construction in Montana declined from \$88 million in 1981 to \$65 million in 1982, and will decline further.

Highway use has increased unusually in Montana because in the late 70's nearly two-thirds of the state lost major commercial air service. Transcontinental railroad service is provided by one carrier now as opposed to three just 10 years ago, and rail passenger service has been halved and may be eliminated. The Governor has summarized the situation as: "Every year the gap between what we need to do and what we can do grows wider."

Current Policy/Procedures: Current highway funding is undergoing significant changes. The Governor's Transportation Advisory Council has studied the current way in which the highway system programs for maintenance, repair and construction of highways has been funded. The Council has completed it's analysis and is due to present it recommendations in early October.

Recommendation: Provide adequate funding for the completion of the interstate highway system and nondeterioration of the existing Montana Highway System. In view of the Transportation Council's specific purpose, we defer specific recommendations on highway infrastructure other than to clearly support additional maintenance of and investment in the highways.

General Programs #7 - Simplify Paperwork

VOTE

Unanimous

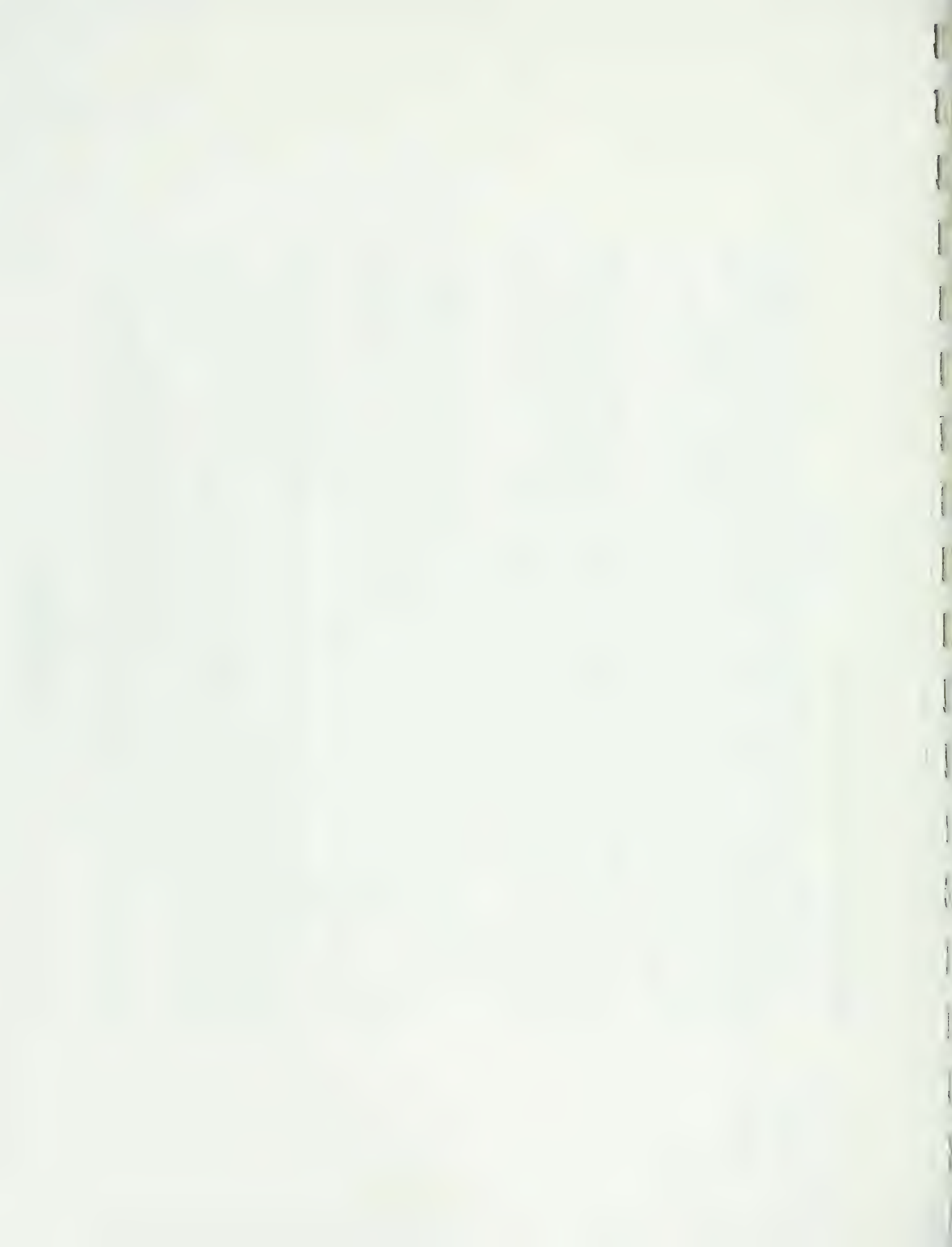
Issue/Problem Addressed: Businesses are now required to have separate identification numbers and file individual quarterly reports for withholding taxes, workers compensation, and unemployment insurance. This totals 12 separate quarterly reports per year. Businesses are also required to have licenses from a number of different state agencies. These licenses come due at different times of the year and have different renewal requirements. These are uncoordinated reporting and licensing requirements are expensive, time consuming for both business and government, and create frustration for an individual business.

Current Policy/Procedure: Quarterly reports require identical information other than differences in wage and withholding reporting which may have taken place. Business licensing is performed in a variety of locations, however, now the new Business Licensing Center develops and distributes information on requirements for licensing, starting and operating a business. However, the center still does not provide a single billing and a uniform renewal date for the variety of licenses an individual business requires.

Recommendation: Create one master identification number for each individual business making quarterly reports (use federal ID tax number). The state can program a relatively simple single cross reference table for the internal use of various state departments. The Business Licensing Center should issue one itemized statement each year for an individual business containing all licenses due with the same renewal date. Renewals would be staggered throughout the year so as not to have all renewals come due at one time.

Rationale/Pros-Cons: Pros - Simplified reporting requirements of like information for businesses would minimize duplication and save the state time while providing centralized information - a master number that could be cross referenced to various departments for reporting requirements by computer programs. A single annual renewal statement for all licenses a business must have would save time, provide an itemized statement, and coordinate renewal dates of all licenses.

Cons - Businesses may have trouble accepting only one number for the reporting of various quarterly reports. The State may not be able to implement this program and it is

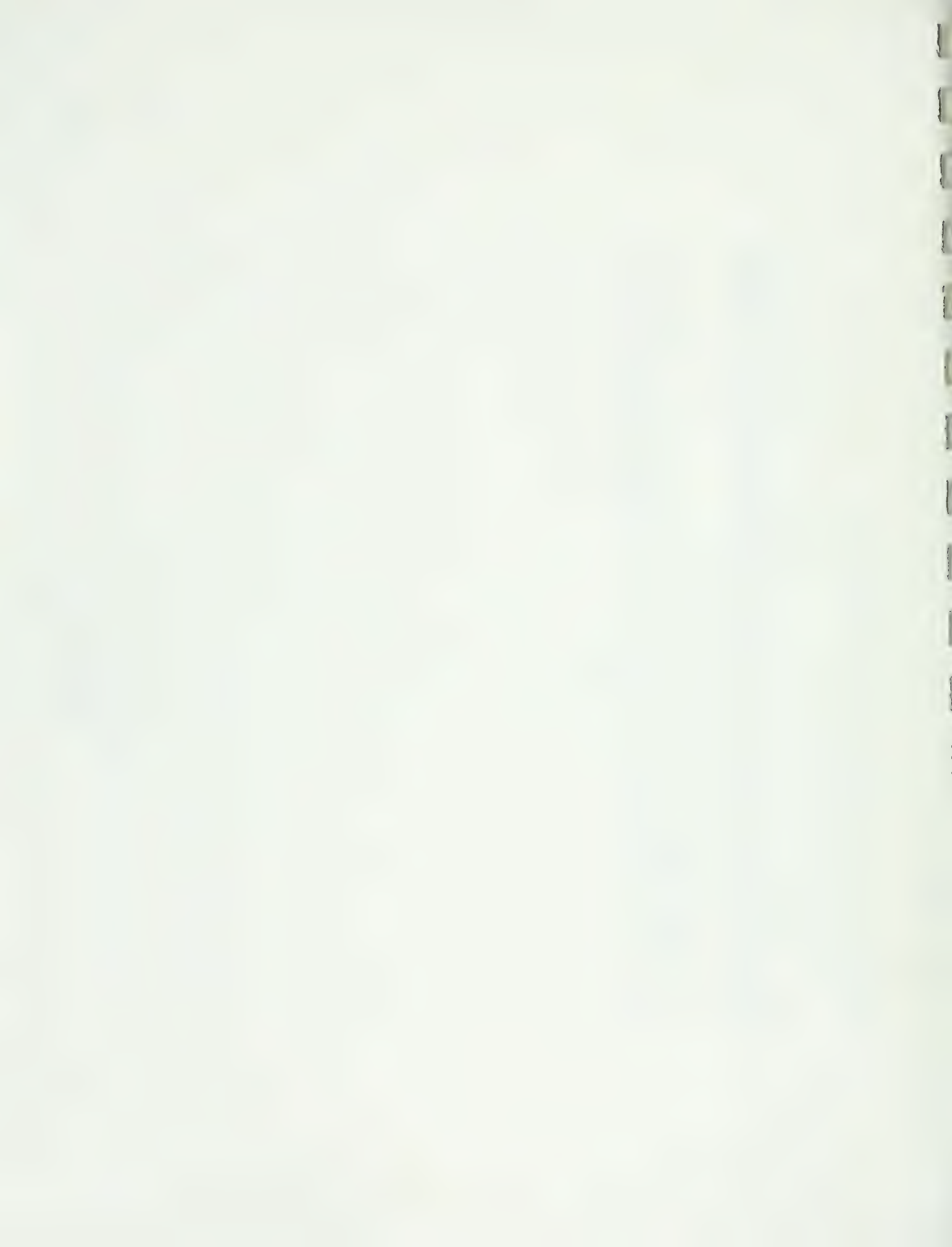


General Programs #7 - Simplify Paperwork (Continued)

Rationale/Pros-Cons: Cons (Cont.)

difficult to estimate its cost effectiveness. One state agency found upon examination that this would not save money and was not worth the effort. It would take at least 2 years to phase in the renewals for a yearly statement renewal of all licenses.

Financial Costs: Shared information reporting for quarterly reports is estimated to cost approximately \$150,000 for program initiation and start up. Single-time licensing renewal of all licenses is estimated to cost \$100,000 to establish, however, the cost may be offset elsewhere.



General Programs #8 - Competitive Bidding for Government Services

VOTE

Yes-35

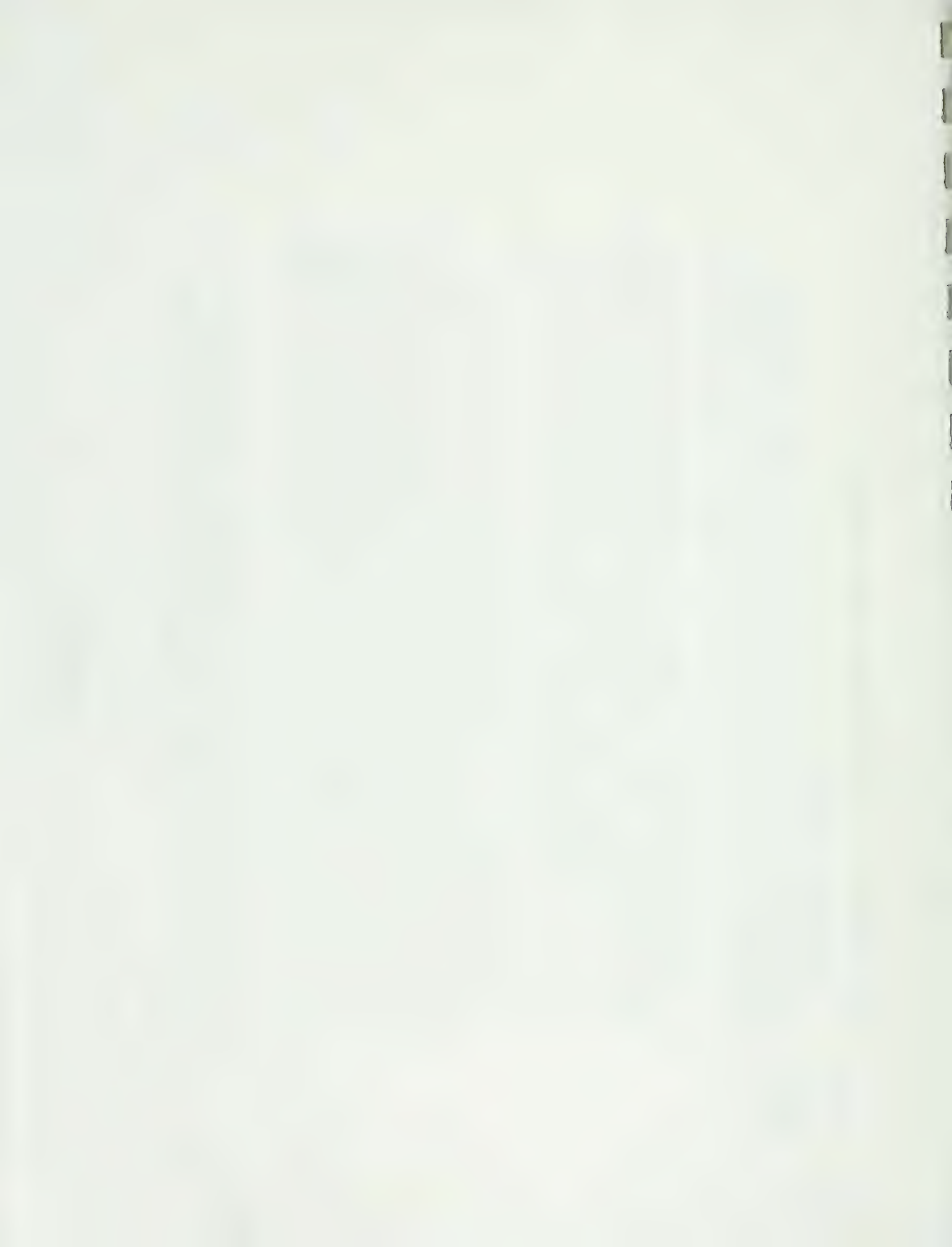
No-1

Issue/Problem Addressed: Montana state and local government is one of the largest purchasers of goods and services in the state. The state's small business community needs better access to the bidding process. Many potentially successful bidders shy away from participating in the competitive bidding process because of the time needed to properly prepare a bid, lack of knowledge of this potential market, or intimidation by a number of regulations.

Current Policy/Procedures: The Department of Administration's Purchasing Division, under the authorization of Title 18, Chapter 1, Sections 18-4-101 through 18-7-307, MCA, 1979, has charge of the state's purchasing activity. Local government purchasing is decentralized with no one office or agency responsible for municipal, county, or school district purchases. There is a 3 percent advantage given to instate bidders. The materials published by the Purchasing Division are, by their own admission, written in a regulatory tone. There has been no overt effort to encourage instate bidders since 1976.

Recommendations: 1. A publication explaining bid procedures be prepared and distributed to small businesses. 2. A series of annual bidders conferences be held to help educate and encourage Montana small businesses to do business with the state. 3. Existing rules and procedures be evaluated to eliminate obstacles to bidding by small businesses. 4. The Governor require each department to review its operations to determine if additional functions or services could be submitted to public bid including highway and state buildings maintenance and construction. 5. The Legislature, Governor, or local government associations commission a study to determine what local government services could be submitted for competitive bidding. 6. The state publications and conferences could include information on participation in federal bidding procedures.

Rationale/Pros-Cons: Pros - This effort would be consistent with the Administration's goal of assisting existing state businesses. Increased bidding could result in increased competition which in turn may reduce the cost of and improve public services. Government contracts could provide the seeds for new business start ups, for example, in computer software.



General Programs #8 Competitive Bidding for Government Services (Cont.)

Cons - The additional number of bids that may be stimulated by this program would cause additional paperwork for the Purchasing Division. Enforcement of performance by contractors is often difficult.

Financial Costs: It is estimated that necessary publications for a state program would cost \$8,000, and a series of annual conferences would cost \$6,000 for a total project cost of \$14,000. The cost/or savings of submitting additional state and local services to public bid cannot be estimated.

General Programs #9 - Foreign Trade Zone (FTZ)

NOTE

Unanimous

Issue/Problem Addressed: Foreign trade zones were introduced into the United States in 1934 as a means of facilitating foreign trade while, at the same time, creating employment within the United States. The Foreign Trade Act of 1934 authorizes the establishment of special enclosed areas which are treated as being outside the Customs territory of the United States. They are the U.S. version of what are known internationally as free trade zones. Foreign and domestic merchandise may be moved into zones for storage, exhibition, assembly, manufacture, or other processing. The usual formal Customs entry procedure and payment of duties is not required on the foreign merchandise unless and until it enters Customs territory for domestic consumption, in which case the importer has a choice of paying duties either on the original foreign materials or the finished product. Quota restrictions do not normally apply to foreign goods in zones. Domestic goods moved into a zone for export are considered exported upon entering the zone for purposes of excise tax rebates and drawback. Thus, a Montana FTZ would provide economic incentives for establishing foreign-source for foreign-bound operations.

Current Policy/Procedures: Montana law, MCA 30-15-101, passed in the 1981 session, provides authority to establish, operate and maintain a foreign trade zone. The Economic Growth Council of the Great Falls has an application for a FTZ. This would be the only FTZ in the Rockies outside of Salt Lake City. The proposal had gained the interest of Canadian oil field equipment sales operations and light manufacturers, although exchange rate movements have made U.S. manufacture less advantageous.

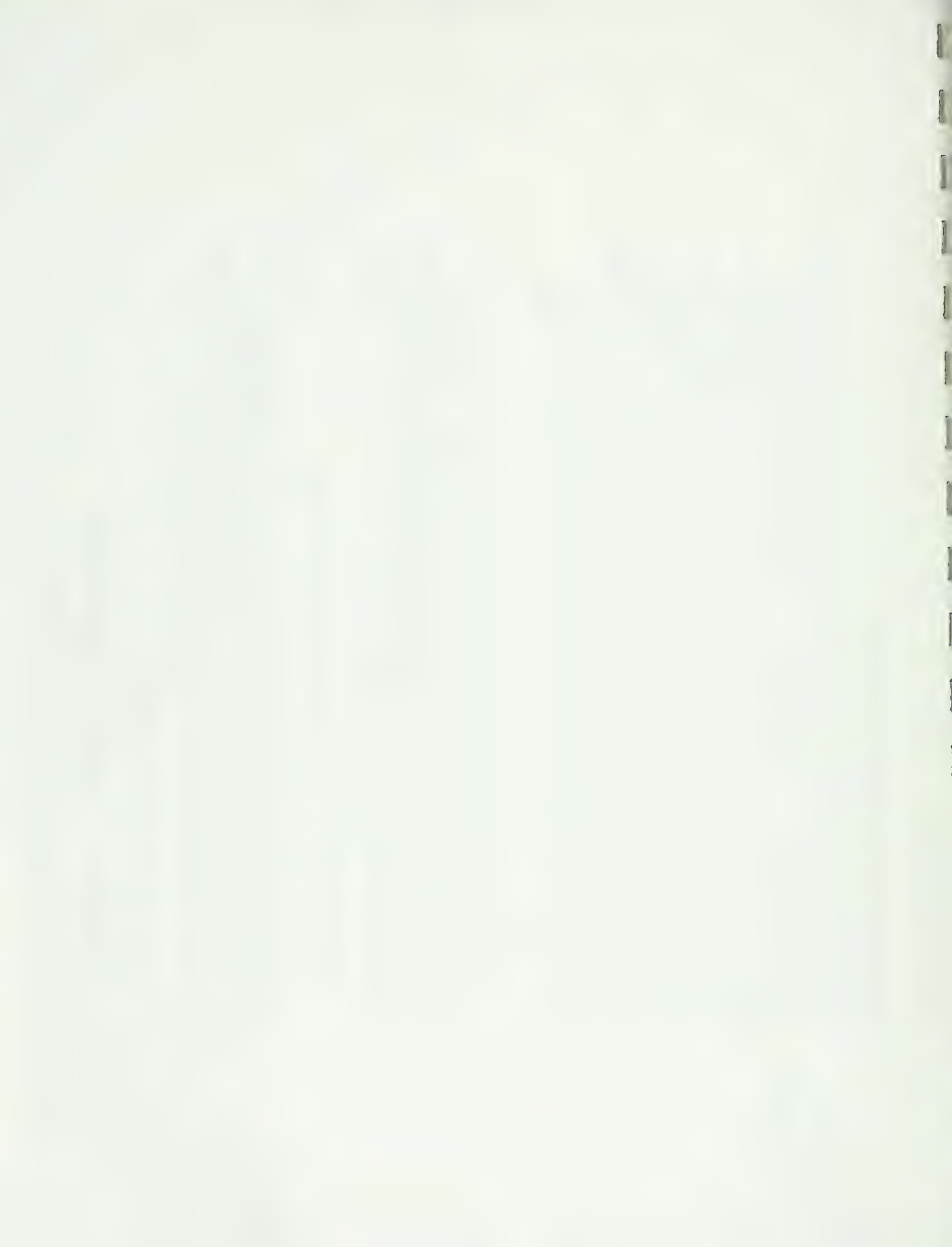
Recommendation: Support Foreign Trade Zones for Montana.

Rationale/Pros-Cons: Pros - Such authority will provide Montana an additional incentive to develop international trade. Domestic and Foreign corporations may engage in more processing and manufacturing of products and commodities in Montana for exporting abroad. The act is primarily an expansion tool to encourage business and job development through international trade by providing customs duty payment reductions and delays.

Cons - There are no obvious drawbacks.

Financial Costs: None expected to the State of Montana.

McKinsey & Company, Inc.



General Programs # 10 – Undertake Tax Investigation

VOTE

Yes-30

No-6

Issue/Problem Addressed: Montana's state revenue sources sharply differ from other neighboring states. Reliance on severance taxes is much greater; the corporate income tax rate is the highest or second highest* in the area; and Montana is one of only five states without a sales tax. Many believe this tax structure sends a strong anti-business signal and discourages businesses from operating in Montana.

Current Policy/Procedures: Legislative committees have recently investigated taxes on oil and gas, and hard rock production, but there has been no investigation of the "package" of taxes affecting businesses (including local taxes), how they compare to other states, and what the effects might be.

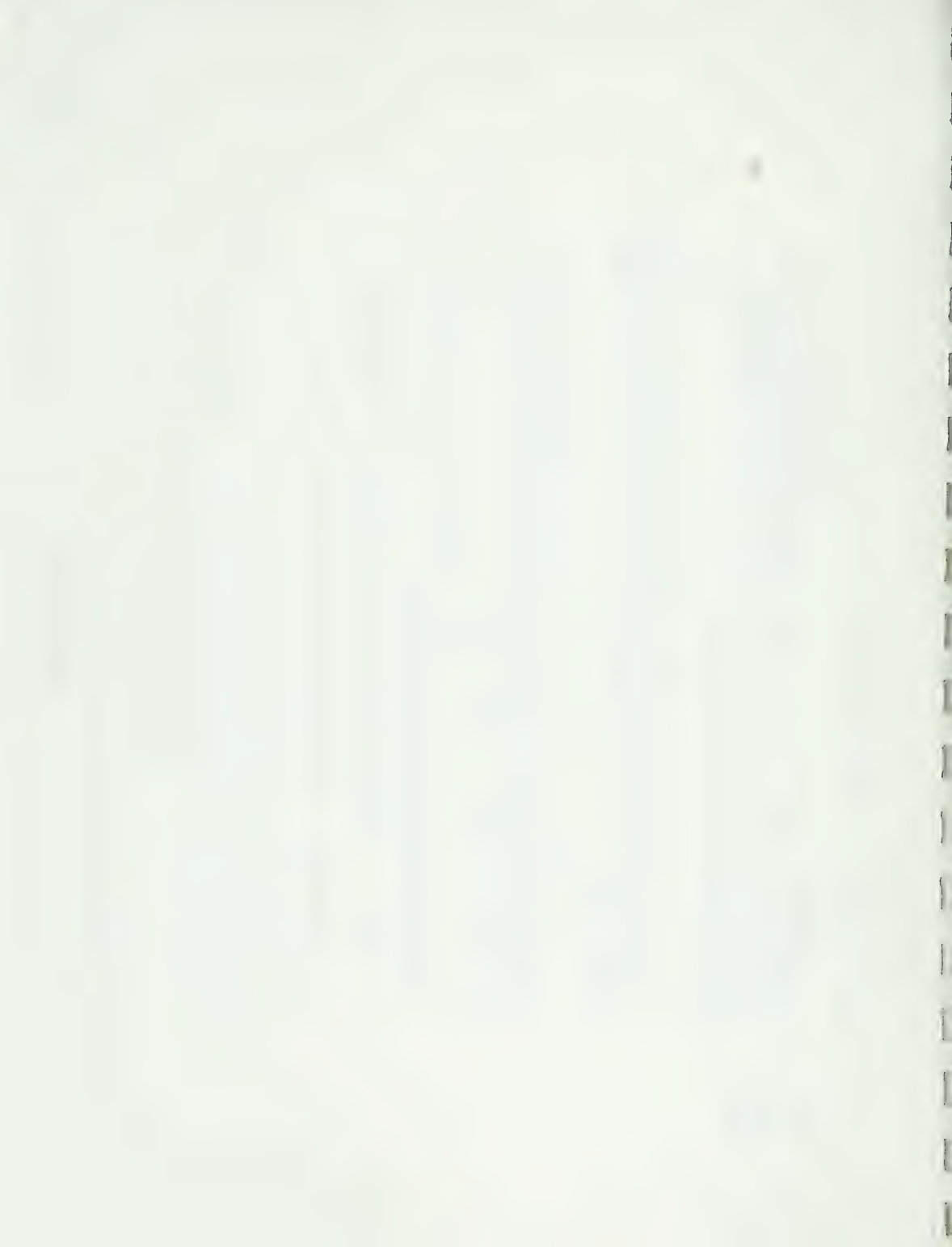
Recommendation: The Governor's Council on the Economy (if adopted) or another such organization should undertake as its highest priority an objective investigation of taxes affecting business in Montana; how these compare to other states, and what the effects of any major differences might be on the state's economy.

Rationale/Pros-Cons: Pros - This analysis would provide the necessary fact base for considering integrated changes in the tax structure.

Cons - No more studies are needed. The current tax situation and approach are fine.

Financial Costs: A thorough analysis could cost on the order of \$100,000.

*North Dakota has a sliding scale.



VOTE

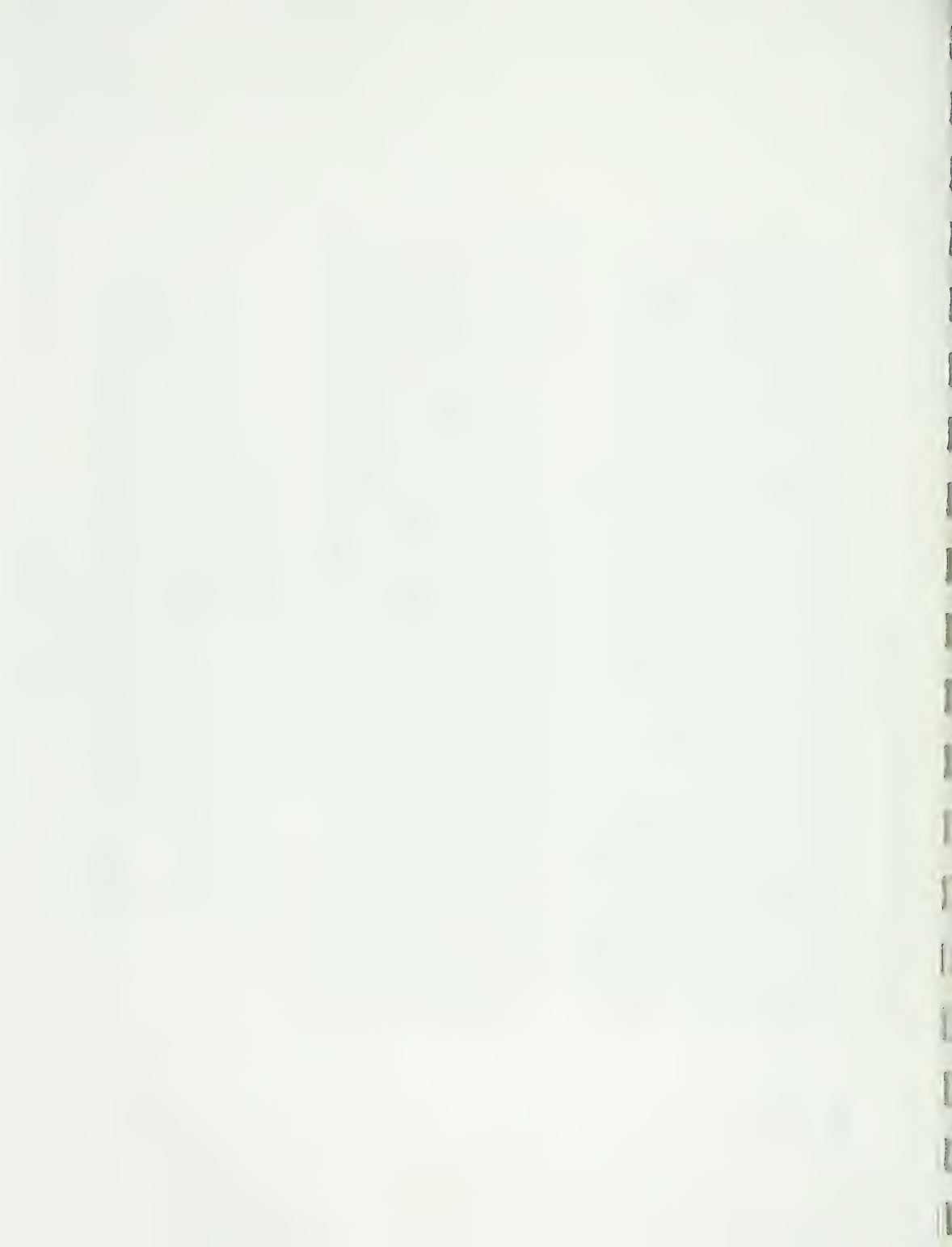
Unanimous

Issue/Problem Addressed: Montana businesses and governmental agencies have had almost a decade of experience working with the environmental protection laws adopted in the early 70's. This experience has demonstrated both that the laws work well and that there are some opportunities for streamlining and accelerating the permitting process without eliminating the environmental protection enacted by the legislature. Experience has also demonstrated that better and earlier communication between industrial and governmental officials can avoid conflict, confusion, and delay. Pre-application conferences between developers and regulators are a useful method for avoiding later misunderstandings. Finally, many delays have been created by citizen litigation against the government or developers and not by government or regulatory process. Greater sensitivity by developers to citizen concerns and creation of conflict resolution forums such as those utilized in Colorado might be useful. The advisory committee for Resource 89 was a good example of such consultation.

Current Policy/Procedures: The Western Governor's Policy Office, the Montana Environmental Quality Council, and the Governor's Office have prepared directories that summarize all federal and state permitting processes. The Governor's Office is currently meeting with Department Directors to review these directories and identify problem areas and areas that can be streamlined without jeopardizing the permit standards. Special emphasis is being given to standardizing state and federal time frames so that minimum and maximum deadlines are the same and requirements for supporting documentation are compatible. The Environmental Quality Council conducted a study prior to the 1981 Legislature, and the Montana International Trade Commission has developed specific recommendations. The 1981 Legislature adopted some streamlining procedures, including waiver of alternative site review if the proposed site is in an area where 250 or more permanent jobs have been lost from a single employer over a 2-year period.

Recommendations: without changing the applicable standards,

1. The Governor is encouraged to present specific recommendations to the 1983 Legislature for streamlining the permitting process.
2. Industry and developers are encouraged to contact regulatory agencies prior to preparation of applications and to seek agency guidance in the preparation of applications.



Anchor #1 - Streamline/Accelerate Permitting (Cont.)

Recommendations: (Cont.)

- 3. Industry and citizen organizations concerned about the impacts of development are encouraged to explore the creation of mechanisms for prior consultation and conflict resolutions such as those used for Resource 89 by the Montana Power Company.
- 4. Implement a single comprehensive health permit.

Rationale/Pros-Cons: Pros -

- ¶ Permitting, although necessary to protect the public interest, can cause costly delays to developers
- ¶ Process improvements need not compromise standards

Cons - Most of the lengthy delays in natural resource development have been created by citizen suits rather than regulatory processes. Streamlining regulatory processes will not eliminate these suits or shorten their length. Revision of permitting laws may create new untested procedures that would also create further delays or confusion.

Financial Costs: Unknown at this time, but expected to be minor. Some revisions could provide substantial savings to both industry and governmental agencies.



Anchor #2 - Increase Tourism Support

VOTE

Unanimous

Issue/Problem Addressed: Gross tourism and travel expenditures in Montana are estimated to have topped \$1 billion in 1981. Employment attributed to these expenditures was 20,000 + FTE's. The state currently commits only limited financial resources to establishing itself as a vacation or conference destination: Montana currently ranks 46th in the nation in tourism promotion, and spends only half as much as South Dakota or Wyoming, yet there is evidence that Montana could attract many more tourists.

Current Policy/Procedures: The state currently spends about \$600,000 annually on tourism promotion, an amount unchanged since 1975. Promotion is limited to print and radio mediums with primary emphasis on responding to specific inquiries. New cooperative programs have been developed with industry financial support such as radio programs, group tour manual, and a winter guide. Private contributions now total \$100,000. A major market study of tourism was completed in 1980 indicating considerable additional potential based on relatively low awareness and lack of negative attitudes. Significant opportunities for regional efforts also exist - Western States centennials, 1988 Winter Olympics in Calgary. The Governor's Tourism Advisory Council is currently reviewing options for strengthening and expanding tourism promotion.

Recommendation: Increase the state commitment to tourism to a level at least competitive with neighboring states. This will allow for such activities as expanded promotion, new cooperative programs with the private sector, joint promotions with other states, and the development of a common theme for all state fairs, rodeos and festivals. It is expected that the private sector will also commit more funds to tourism promotion at the same time.

Rationale/Pros-Cons: Pros -

- ¶ Unlike other primary industries in Montana which are largely dependent upon outside market forces, the travel industry economy can be directly influenced by the state's promotional efforts.
- ¶ Tourism is an environmentally "clean" business
- ¶ Tourism acquaints visitors with opportunities to locate businesses in Montana.

Anchor #2 - Increase Tourism Support (Cont.)

Rationale/Pros-Cons: Cons -

- ¶ While acknowledging the importance of tourism promotion, some individuals feel that the industry should support its own promotion efforts through contributions or a special tax.
- ¶ Promotion may be premature - a higher priority may be infrastructure.
- ¶ The "quality" of jobs created by tourism are questioned by some as low paying and seasonal - although others point out that tourism offers considerable opportunity for small, family-owned businesses.

Financial Costs: Significant expansion of the budget to a competitive level would require doubling or tripling it for 1983 and 1984.



Anchor #3 - Model Process

VOTE

Unanimous

Issue/Problem Addressed: Economic development is often characterized by the multiple "we-they" stand off among valid environmental, commercial, labor and public interests. As a result of delays, ill will and cancellations, many companies now view Montana as a less hospitable investment climate than neighboring states with comparable resources.

Current Policy/Procedures: Public policy has been conservative towards development - evidenced, for example, by some outright prohibitions. Development proceeds in an adversary forum. Until Resource 89 there had been no concerted effort to plan, from the outset, a major development project.

Recommendation: Explicitly solicit corporate, labor and interest group comments on the current process steps from application to facility opening (including the first anchor recommendation). One model for efficient coordination in major projects is the appointment of a single project manager, interagency committee, or other coordinating mechanism to convene interested and affected parties to draw up a mutually accepted plan and timetable for each project to be formally approved by the Governor's Economic Council on the Economy (if adopted) or other designated body. A lead official would then be appointed to oversee adherence to the plan. Further, the state should actively encourage proposals for new facilities to be put forward, to be used as test cases for the updated procedures.

Rationale/Pros-Cons: Pros - If the state can demonstrate a smooth process for accommodating various interests, additional investment could be attracted. Such changes and active encouragement could have both high substantive and symbolic power. More importantly, development done in such a manner could prove to yield the greatest collective benefit.

Financial Costs: The cost to the state is minor.

*It is understood that all projects must conform to applicable law.

Anchor #4 - Timber Policy

VOTE

Unanimous

Issue/Problem Addressed: Management and development of Montana's forest products industry is of critical importance to the future of the Western Montana economy - where the timber industry makes up 50 percent of the economic base. The decline in federal timber sales by 30 percent in the 1970's, the national crisis in the housing industry, and Canadian and southern competition are resulting in the closure of Montana lumber operations and are creating tremendous pressure on the Montana Forest Products Industry.

Current Policy/Procedures: Recognizing the crisis in the forest products industry, the Governor created a special Forest Resource Advisory Council. The 24 member Council contains representation from large and small operators, state agencies and concerned private organizations representing industry and conservation constituencies. This committee meets bi-monthly and deals with two primary programs: The U.S. Forest Service's Resource Planning Act (RPA) and the U.S. Forest Service's ten Forest Plans. This committee also reviews congressional proposals - i.e., Baucus' SB 1141, National Forest Investment Fund Act - and reviews state policies - i.e., the Dept. of Fish, Wildlife and Parks proposals on road building standards.

Recommendations:

1. The Forest Resource Advisory Council be continued as a committee of the Governor's Council on the Economy and be provided staff and called the Forest Resource Committee
2. The Chairman be appointed to the Governor's Council on the Economy
3. The Committee work closely with the Science and Technology Committee* to identify research priorities for harvesting and processing forest products and perhaps harvesting smaller stump trees
4. The Committee evaluate the impact of federal policies on the Montana Forest Products Industry and recommend an appropriate state-wide response

*If approved.

Anchor #4 - Timber Policy (Cont.)

Recommendations: (Cont.)

5. The Forest Resource Committee* should specifically examine the British Columbia system for designating timber supply allowance for guaranteed long term timber supply and floating stump prices.

Rationale/Pros-Cons: Pros - The importance of the timber industry to Western Montana, where few other economic bases exist, justifies a special effort to identify opportunities for strengthening the industry.

Cons - The national housing market, Canadian and southern competition and the slow growth rate are issues beyond state control or influence. The industry itself could sponsor such a group.

Financial Costs: The Committee should have two staff people and financial resources to contract for research and writing. A budget of \$60,000 to \$100,000 is projected.

*If approved.



Anchor #5 – Pre-Application Site Determination

VOTE

Yes-38

No-1

Issue/Problem Addressed: To define a cost-effective, timely process for registering acceptable sites for the location of large-scale manufacturing, industrial processing, and energy conversion facilities that does not jeopardize the integrity of Montana's health and environmental protection laws.

Current Policy/Procedures:

1. Certificates of Public Need and Environmental Compatibility may be required from the Board of Natural Resources and Conservation (BNRC) for major facilities that generate or transmit electricity, produce synthetic gas or liquid hydrocarbons or transmit them by pipeline, enrich uranium minerals, utilize or convert coal, or utilize geothermal resources. Associated facilities such as transportation links, aqueducts, dams, and other facilities associated with the production or delivery of energy are included. Crude oil and natural gas refineries and facilities for producing, gathering, transporting and distributing crude oil and natural gas; coal and uranium mines; and federal facilities are excluded. Certification is also required from the Department of Health and Environmental Sciences (DHES) that the facility will not violate air and water quality standards or other laws administered by the DHES.
2. The BNRC can waive the study of alternative sites by an applicant under the Major Facility Siting Act (MFSA) if the proposed facility: is located in a county that has lost 250 or more permanent jobs from a single employer over a 2-year period within the 10 years preceding the filing of the application; is supported by a resolution from the local governing bodies; is within 15 miles of the firm that ceased or curtailed operations; and will have a beneficial effect on the local economy.
3. The State of Maryland has a site banking process for electrical generation. The State Department of Natural Resources administers the program which includes environmental research, site screening and site acquisition based on projected in-state requirements. The electrical utilities annually pay the state DNR a fee based on kilowatt hours sold in Maryland which provides the research and acquisition fund. This fee is set annually by the Public Service Commission (PSC) which allows the utilities to charge the fee against the cost of operation.



Anchor #5 - Pre-Application Site Determination (Cont.)

Recommendation: A cooperative study, either entirely state funded or jointly funded by private sector contributions, should be undertaken to determine the feasibility of and criteria for preregistering acceptable sites for the location of large-scale manufacturing, industrial processing, and energy conversion facilities.

Rationale/Pros-Cons: Pros - Such programs as in Maryland appear to have some potential, but little is known about the concept in Montana, its impact on industrial location decisions, and how the concept can be integrated with existing environmental laws. Designating approved sites for development of industrial facilities could significantly shorten the time needed to plan and construct such facilities - where a 12-month delay can cost millions.

Cons - It may be difficult to designate areas acceptable for major industrial facilities if the type of facility is unknown at the time of designation. Designated sites could also limit the flexibility of siting major industrial facilities that may want to locate in Montana based on economic factors such as proximity to raw materials - although a company could always choose to go through the conventional process.

Financial Costs: The cost of studying the feasibility of such a concept and, if feasible, to develop criteria for implementation would be approximately \$75,000, which could be funded either entirely by the state or with matching industry contributions.

VOTE

Unanimous

Issue/Problem Addressed: The threat to preclude future water development in the Missouri and Yellowstone River basins of Montana is becoming very real. The lower Missouri River Basin States below Sioux City, Iowa have made it eminently clear that they desire a compact on the Missouri River and tributaries to protect existing navigation, hydropower and recreational benefits. On the other hand, Montana, as a headwater state where a large portion of the water originates, does not want to lose its options for future water development. However, it is not economically possible for agriculture, local communities, recreational interests and others to build water projects. Secretary of the Interior Watt's recommendation that the states, rather than the federal government, bear the major burden of financing water projects indicates Montana may need additional funding sources. The large industrial demand for water that was experienced in the early 1970's has diminished. Montana has approximately one million acre-feet of water available for industrial purposes in existing state and federal reservoirs and proposed federal reservoirs (reservations to the BOR) in both the Missouri and Yellowstone River basins.

Current Policy/Procedures: In 1981 the Montana Legislature created the Water Development Program designed to develop the economic and recreational benefits of the state's water resources. This program was implemented by the DNRC, which, through loans and grants, will be investing in projects to promote the wise use and conservation of water. At the present time, future water demand has focused on the possibilities of coal slurry, but several other major uses can be envisioned. According to Montana statute (85-2-104 MCA), "the use of water for slurry transport of coal is not a beneficial use of water." The Montana statute also requires that the legislature must approve the transportation of water out of the state (85-1-121 MCA). In the Yellowstone River basin, the three signatory states to the Yellowstone River Compact (Montana, Wyoming and North Dakota) must approve all water transferred outside this basin in accordance with Article X of this compact (85-20 MCA). Only from Fort Peck Reservoir does the state have a process for marketing industrial water. The state has an agreement with the Bureau of Reclamation that allows the state the first option to subcontract up to 300,000 acre-feet of water per year for industrial purposes. In South Dakota, the state government concluded a well-publicized contract with ETSI for 50,000 acre-feet of Missouri River water per year.

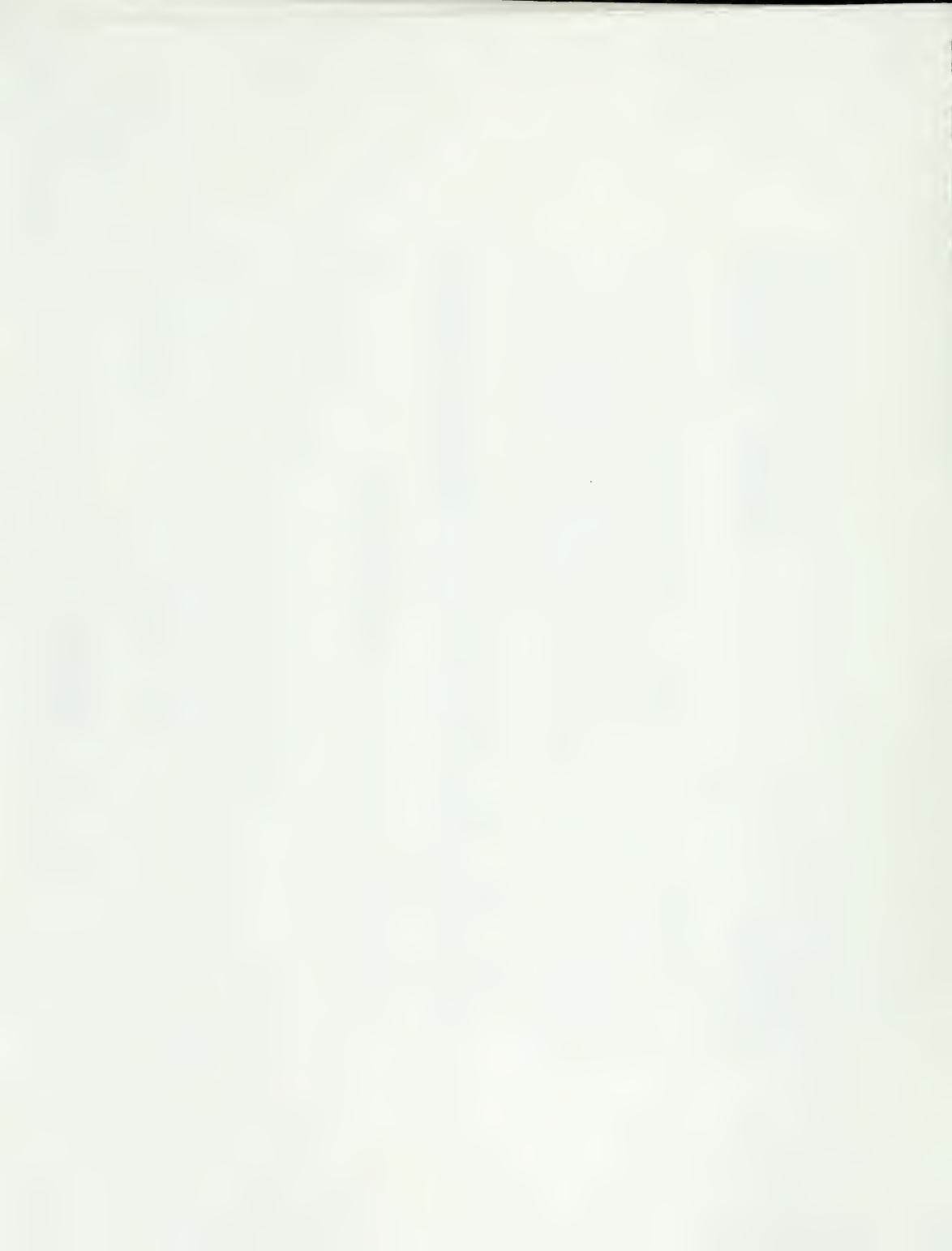
Anchor #6 - Water Development (Cont.)

Recommendation: The state needs to evaluate in-state and out-of-state marketing of water from existing state and federal reservoirs, as a means to assist in the financing of water development projects. The study should determine the economic, tax, administrative, legal, social and environmental advantages and disadvantages of water marketing. It is recommended that the study be initiated by the 1983 legislature, and that a representative advisory group be appointed to review the investigation.

Rationale/Pros-Cons: Pros - (1) In light of federal cutbacks in water development and in other important areas, the primary advantage is that the state can generate revenues for future water development and for other financial needs of the state; (2) more agricultural water development will create more jobs and bolster the state's agricultural economy; (3) there appears to be enough water for most agricultural and industrial demands; (4) the state can control the terms of any water contract including the lease period; (5) if Montana does not take action, the state may soon lose its rights to out-of-state claimants - that is, "use it or lose it".

Cons - (1) Depending on the end uses of the commercial water sale, additional social and environmental issues could arise; (2) one use, coal slurry transportation, may have a negative economic impact on railroads; (3) some believe it is impossible to consider water usage until all water claims are settled.

Financial Costs: The study would cost approximately \$75,000.



VOTE

Unanimous

Issue/Problem Addressed: There have been many new environmental regulations adopted in Montana over the last decade with which business and industry must comply. Some businessmen believe Montana's environmental laws are "moving targets" - that the "rules of the game" have been changed after long term investments have been made.

Current Policy/Procedures: When business, industry, agriculture, urban areas, and others are required to comply with a new air or water regulation they must file a compliance plan within 90 days. Statute 75-2-212, MCA (paraphrased):

A person may apply to the Board of Health & Environmental Sciences for an exemption from applicable rules. Such a variance may be issued if the Board finds there will be no danger to public health or safety, and that compliance with the rules from which exemption is sought would not produce hardship . . . to the public. A variance is good for one year, and may be renewed for like periods. An applicant for a variance must submit a sum of 2 percent of the cost of equipment needed to bring the facility into compliance with the rule from which the exemption is sought, but not less than \$500 nor more than \$80,000.

Only one facility, however, has ever actually been closed down for environmental noncompliance.

Recommendation: Allow existing Montana businesses the option of complying with changes in environmental laws and standards under the current variance procedure or according to a multi-year (with 5 as a possible target) phased compliance schedule (except in cases of health emergencies or as Federal law requires). New businesses in Montana would be required to meet the standards.

Rationale/Pros-Cons: Pros - Such a provision would allow businesses to comply in the most cost effective manner, with minimal disruption to operations or decision-making, and remove the much greater uncertainty of a variance approach.

Cons - Opposing arguments center on possible delays in implementing changes in environmental policy.

Financial Costs: No additional financial costs are anticipated.

Anchor #8 - User Supported Natural Resource Access Roads

VOTE

Yes-27

No-7

Issue/Problem Addressed: Currently, only those very larger producers who have natural resource tracts large enough to warrant a private road can use the most efficient and cost effective trucks. Many natural resource areas, either because of a small amount of proven reserve or an economic feature that does not go beyond 5 or 10 years, will likely remain undeveloped if their economic viability depends upon low cost transportation. Highway trucks do not represent the most efficient form of transportation for significant tonnages, and rail requires years of construction lead time as well as an extremely long amortization period. An off-highway truck in the 200-250,000 lb. range could easily provide the same economics as a rail extension, but is capable of providing those same economics on relatively low tonnages for short periods of amortization.

Current Policy/Procedures: There are two private natural resource roads in Montana, operated by Champion International and Royal Logging. They are totally private dirt and gravel roads, capable of handling trucks in the 250,000 lbs range. This size truck is a large, off-highway vehicle that is not compatible with highway design or traffic. These are totally private roads; Montana has no provision for locating, engineering or constructing such commercial roads.

British Columbia has a system of natural resource roads in which the province, having once decided to economically develop an area, has provided to the several industrial users in the area a restricted access road. The users bear the entire cost of maintenance of that road.

Recommendation: Establish state sponsored resource roads, with limited access, to be paid for by users.

- ¶ Allow the state to locate - possible with eminent domain - and construct the road at state expense, collecting fees from users on a flexible basis which may be monthly payments, payments per load, or royalties.
- ¶ Place no restriction as to size or configuration of vehicles, in return for which the user industries would be responsible for maintenance of the road.

Anchor #8 – User Supported Natural Resource Access Roads (Cont.)

Recommendations: (Cont.)

- ¶ Access to the road must be restricted to those with projects in the area, since the types of vehicles are incompatible with public traffic, although public access could be arranged when the road is not otherwise being used.

Rationale/Pros-Cons: Pros - Transystems, Inc., a Montana trucking firm has looked at several projects in which they would be able to provide a complete transportation service, including upgrading of a very poor exploratory road to 250,000 lb. capacity. Their rate for this service would be less than the debt service and 20 year amortization on a rail line extension. This could benefit local industries such as the bentonite industry, logging industry, small high-grade coal developments, and other developments.

Cons - Opponents may argue that such up front investment puts the State at risk if the resource is not developed, or user payments cease for whatever reasons. Further, in timber, the State owns only 5 percent of the public land and rights, so such a policy may be more appropriate at the Federal level. Lastly, there is already excess supply in timber and other resources.

Financial Costs: Depends on location, geography, length, etc. of road. Initial cost would be paid by the State, but reimbursed by the industry users.

Anchor Enhancement #1 – Coordinate Education and Development Policies

VOTE

Yes-37

No-1

Issue/Problem Addressed: Inflation, low productivity, trade deficits, and job loss are all linked to inadequate technological growth and innovation. Without technological progress, industry creates few jobs, factories and equipment become obsolete, productivity stagnates, and inflation becomes more difficult to control.

Firms that have invested heavily in developing technology and carrying it forward into commercial products have been shown to have about twice the productivity rate, three times the growth rate, nine times the employment growth, and one-sixth the price increases as firms with relatively low investment in these activities. Further, two of the four highest location requirements for "footloose" high technology firms could be generated by an active, focused scientific partnership – labor skills and availability and the proximity of (relevant) academic institutions. The State government can play a major role in initiating and supporting technological innovation by bringing the government, academia and industry into a partnership. The state of North Carolina and its Research Triangle serve as a model in this regard. This experience underscores how important technological progress initiated and nurtured by a well directed R&D enterprise can be to all American industry and to the achievement of some of the nation's most important social and economic goals.

Current Policy/Procedures: The State of Montana has no program or agency that broadly addresses research and development priorities as they apply to economic development. State funding of agriculture and forest products research is administered by the Experiment Stations in the University System but no comprehensive or broad-based program of research and technology transfer that involves or addresses engineering areas, certain small businesses, or tourism exists in the State. Moreover, there are no policies or procedures that establish research priorities with regard to new technologies that could be the basis for a new industry in Montana.

Recommendation: Create a Science and Technology Committee that directs the establishment of a program of research and development which enhances and supports the economic development of the State. The Committee and its staff would:

1. Develop research priorities that complement and support economic development in the State.

Anchor Enhancement #1 - Coordinate Education and Development Policies (Cont.)

Recommendation (Cont.)

2. Develop strategies and implement plans to obtain funding through legislative action and provide for continuous funding of multiyear projects and programs.
3. Develop data and facts about economic development in selected areas in order to instruct the R&D effort of the University System and the scientific community at large.
4. Develop mechanisms for the transfer of technology originating from Committee funded projects.
5. Develop a program of economic development extension that seeks to disseminate useful information into Montana communities.
6. Develop a patent management program on behalf of the State that is designed to control and protect valuable discoveries arising from R & D projects supported by Committee funds.
7. Develop contracting and monitoring mechanisms that include proposal/project review and evaluation and fiscal management of funds.
8. Recommend programs for the establishment of research/industrial park complexes which will combine the resources of government, education, and industry centered in major university areas or other parts of the State as appropriate. Specifically, programs to establish agricultural and forest product processing parks founded on new technologies originating from research shall be prepared for adoption and support by the Department of Commerce.

Anchor Enhancement #1 - Coordinate Education and Development Policies (Cont.)

Rationale/Pros-Cons Pros - The responsibility for promoting technological innovation and its precursor activity, research, is shifting from the Federal government to state governments. Thus, state government is obliged to redefine its role in relation to research institutions, industry, and the general public. North Carolina, New York, Massachusetts, and California have acted on the idea of a partnership between government, academia, and business to promote technological innovation that enhances the economy. Many new businesses and investments in these can be directly attributed to organized efforts largely through Councils/Committees for Science and Technology that stimulate economic growth. In Montana, many if not all electronics companies in the Bozeman area owe their presence directly or indirectly to the Electronics Research Laboratory (formerly operated by the University) or the University itself. Further, other Montana attributes - cost of living, lifestyle - could be "spotlighted" to attract high technology firms if an appropriate base of knowledge and skills were available.

Cons - There are questions about the appropriateness, ability, or willingness of the State to be involved in such a program.

Financial Costs: Administrative (Council staff) and operations costs are budgeted \$85,000 for FY 83 and \$93,000 for FY 84. Funds for the support of research requested are a total of \$650,000 for FY 84.

Anchor Enhancement #2 - Sponsor an Integrated Natural Resource Processing Park

VOTE

Unanimous

Issue/Problem Addressed: Montana has little or no industry that offers refined or finished (value added) products to the national or international markets. Blessed with a wealth of natural resources and abundant "raw" goods, Montana exports at high transportation costs to industrial centers. Failure to manufacture or process goods or products in the state contributes to an unfavorable employment picture, especially in the high technology areas.

Current Policy/Procedures: The state level program to promote industrial development in high technology is still in its infancy.

Recommendations: The state should assist in the creation of a "natural resource processing park" - a large scale facility which processes or refines, perhaps in a new way, a basic Montana resource, develops additional on-site manufacturing or processing, and then markets the final products. Barley serving as a feedstock, for example, can be processed and refined to yield valuable proteins, syrups, animal feed, and alcohol which could serve as the basis for a new food and fuel industry in Montana.

Although viewed favorably by industry, projects currently under negotiation are viewed as premature, and deserve additional study before a recommendation can be made. Therefore, the proposed Science and Technology Committee, if adopted, should be assigned the responsibility of developing a proposal in the immediate future.

Rationale/Pros-Cons: Pros - "Theme" industrial parks are increasingly being recognized as an attractive concept - e.g., State of Vermont is already experimenting with an agr-a-business industrial park, California's "Silicone Valley" represents a model, and the shift to processing in oil-producing countries provides a powerful example. An integrated, multiproduct facility should offer less risk and more opportunity than a single, stand-alone facility which must dispose of or market its by-products. Keying the activities to advanced technology in basic Montana resources may avoid past failures with conventional approaches.

Cons - Vertically integrated industrial complexes are difficult to organize and manage. Because new technology is involved, unusual risk is present.

Anchor Enhancement #2 - Sponsor an Integrated Natural Resource Processing Park (Cont.)

Financial Costs: Unknown at this time, although a demonstration plant for barley processing appears desirable and is estimated to cost \$2,500,000, which could be funded from a variety of sources.

New Business #1 – Qualifying Screens for Assistance

VOTE

Unanimous

Issue/Problem Addressed: If Montana solicits new businesses or offers assistance and incentives to help new or expanding businesses become established, these programs should be restricted to attracting and helping businesses with the most desirable characteristics, rather than dissipated over "all comers". This is particularly important with respect to training and financing assistance.

Current Policy and Procedures: The Commerce Department has focused on primary businesses on the basis of specific requests; the Private Industry Council has helped primarily small businesses of all descriptions, but will likely discontinue operations soon.

Recommendation: Target solicitation efforts and prioritize assistance outlays in business development programs to businesses which create primary jobs, have desirable job characteristics, and hold good chances for long-term success. The Department of Commerce would evaluate assistance applications from new or expanding businesses on the basis of specific criteria. The Governor's Council on the Economy, if adopted, will set these criteria, which may include:

- (1) Primary jobs – those which create a multiplier effect, rather than benefit from the multiplier effect. Primary jobs are generally in manufacturing, service, and resource businesses which have considerable sales outside of the state, but could include bona fide "import substitution" businesses.
- (2) Desirable characteristics – simply refers to whether Montanans want the type of jobs created. Special programs should at a minimum be restricted to businesses creating a safe and healthy workplace. Particular favor might be granted to businesses with above-average wages, and to those offering employee ownership participation. Any businesses in particular industries might be favored – i.e., electronics, instruments.

New Business #1 - Qualifying Screens for Assistance (Cont.)

Recommendation (Cont.)

- (3) Good chances of success - businesses which either rely heavily on specific in-state resources (labor and/or materials) or have a high value added per pound and consequently low transportation costs (e.g., less than 5% of selling price) likely have better chances to survive. Businesses should also show demonstrated community desire including an endorsement by the mayor or other relevant public official(s), and commitments from a local banker.

Additionally, assistance programs might be targeted on the basis of size and presumed need of the applicant.

Rationale/Pros-Cons: Pros - Targetting the kind of businesses to attract and assist insures that the programs achieve the greatest possible results, by avoiding dissipation of the effort. Setting qualifying criteria in advance also focuses the public debate on what types of businesses should be drawn to the state.

Cons - Targetting could be viewed as "unfair" by businesses screened out.

Financial Costs: Any costs incurred would be administrative, and part of ongoing Department of Commerce activities. The costs of the assistance programs themselves are included under appropriate recommendation summaries.

New Business #2 - Capital Assistance

Problem/Issue Addressed: Most bankers agree that while there is sufficient loan capital available at market rates in Montana, there is a shortage of risk capital, venture capital and equity capital. In the 1980 poll by the Governor's Office 93 percent of Montana's banks said they "frequently" had turned down business loan requests solely because the borrower did not have sufficient equity. There are no private venture capital companies operating in the state, although expert opinion believes that a well conceived program could raise up to \$25 million. An effective program would likely need to be in this order of magnitude.

Current Policy/Procedures: Montana currently has no active capital assistance programs for economic development other than city-county Industrial Revenue Bonds. However, the following programs are being considered:

1. The Montana Private Industry Council, with the assistance of Western Analysis, is working to achieve the revitalization of the Development Credit Corporation of Montana, a business development corporation formed in 1969 by the Montana banks and industries. The purpose of the DCCM has been to provide a source of risk capital to Montana businesses that could not secure capital from traditional sources. The DCCM was approved by the 1969 legislature and given authority to sell 3000 shares of common stock to Montanans, most of which was purchased by banks and a few industries. Member banks, savings and loans and insurance companies have also provided a pooled source of high risk loan capital to the DCCM in addition to their stock purchases; the loan experience of the DCCM has been unsatisfactory. The DCCM has been inoperative for the past five years primarily because its corporate charter requires it to borrow at one-half percent above prime.

The DCCM has authority, however, to operate as a venture capital company which can take an equity position in new business ventures, and could operate a Small Business Investment Corporation (SBIC) as well. The Private Industry Council has proposed that the DCCM be recapitalized and serve as a venture capital corporation with a new management. The DCCM Executive Committee has expressed interest in the idea and is awaiting finalization of a feasibility study by the PIC to make a decision about the DCCM. The Montana Banker's Association supports this concept.

Current Policy/Procedures (Cont.)

2. Initiative 95 generally publicized as the "Coal Tax Initiative," will be on the ballot in November 82. If enacted, the initiative would
 - Require the State Board of Investments to invest at least 25 percent of the Coal Tax Trust Fund (the 50 percent of the coal tax collections that is placed into a constitutional trust); it will affect only revenues collected after June 30, 1982.
 - Create an Economic Development Fund into which the Legislature will appropriate a sum of interest income each year to be available for promoting economic development in Montana.

Passage of Initiative 95 may make equity or long-term debt capital available from the state.

3. The Northern Rockies Action Group is sponsoring an Instate Investment Study Committee of diverse Montanans who have studied the capital need in Montana, and evaluated other state's capital credit programs. The NRAG Study Group have completed their final report draft, which calls for the creation of a non-profit Montana Development Corporation which would have four main functions: outreach and promotion; facilitation of entry into the Montana business community; screening of business concepts and assistance in business planning and management development; and financing of sound businesses that are unable to find funds in the existing private financial market place.

The NRAG Report recommends that the Montana Development Corporation be capitalized with a \$7 million appropriation from the Coal Tax Trust.

4. A regional economic consultant firm has published a report which proposed to establish a venture capital firm with state participation through tax credits. The author proposes the creation of Montana Investment Corporations (MIC's) similar to the Small Business Administration's Small Business Investment Corporations, to be funded as follows:

New Business #2 - Capital Assistance (Cont.)

Current Policy/Procedures (Cont.)

- The state authorized capitalization of MICs up to \$25,000,000 over a 5-year period beginning July 1, 1983. The state allows a tax credit of 50 percent (Montana Personal Income and Corporate Tax) of the total amount, spread over a 5-year period as the funds are invested in state. For example, if three MICs were chartered and each raised \$5 million in private funds, the state tax credit to the investors would equal \$7.5 million, assuming the funds were invested in-state; revenue "losses" in this example would be \$1.5 million per year.
- General fund costs to the state are to be offset by the permanent coal tax trust fund.
- MICs may borrow (and reinvest) from the coal tax fund at market rates up to an amount equal to three times MIC's paid-in capital.
- Stock (or limited partnerships) in MICs will be offered by licensed brokerage firms operating in Montana.
- Maximum individual tax credits over a 5-year period (personal or corporate) are not to exceed \$100,000.
- MICs must raise at least \$500,000 in private funds before a state charter may be awarded. Start-up costs (up to \$50,000) for investors may be credited (over 5 years) on Montana taxes, for MICs receiving a charter within 3 years after the enactment of the bill.

VOTE

Yes-35

No-3

Recommendations: There are two recommendations:

1. Support the recapitalization of the DCCM as a venture capital organization

VOTE

Recommendations: (Cont.)

Unanimous

2. Endorse an investigation of the feasibility of establishing additional means for investment in qualified projects, including investment tax credits, selective public matching funds, or other means; specifically include examination of how coal trust funds could be leveraged in a new ventures fund.

Rationale/Pros-Cons: Pros - Supporters of the DCCM note that it has the most readily available private authority for venture capital activities, and has the participation of most of the State's financial institutions; establishment of an SBIC could allow for tripling the capitalization with Federal SBA funds. Supporters of establishing additional means note that at least 25 states have created significant loan programs, and that several states have set up quite successful venture capital programs. They argue that availability of equity capital is a powerful tool in attracting new businesses or helping existing businesses to expand, particularly if the types of businesses established are to be influenced so that at least a study is merited.

Cons - Opponents of the DCCM concept point to an unsatisfactory track record and the lack of obvious incentives to invest. Opponents of establishing means argue that worthwhile projects obtain funding, and that economic development finance is not an appropriate tool for the state to use. Additional concerns relate to how such a program could be structured to include financial experience and avoid possible political influence.

Financial Costs: The DCCM would be wholly private, simply requiring a new stock issue. Incremental expenses of a review group for establishing additional means could cost around \$50,000. The Private Industry Council has authorized \$15,000 to be spent for analyzing the legal and financial requirements to recapitalize and restructure the DCCM.

